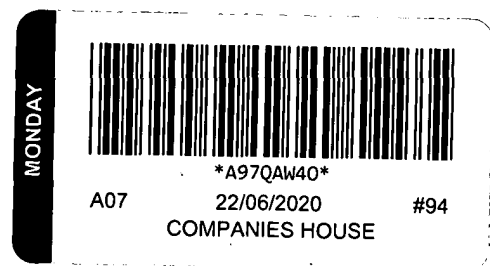


Warpaint London Plc

Annual Report and Financial Statements for the year ended 31 December 2019

Registered number: 10261717



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Directors	C Garston Chairman S Bazini Chief Executive Officer E Macleod Managing Director N Rodol Chief Financial Officer S Craig General Counsel & Company Secretary K Sadler Non-Executive Director P Hagon Non-Executive Director
Registered office	Units B&C Orbital Forty Six The Ridgeway Trading Estate Iver Buckinghamshire SL0 9HW
Company number	10261717
Nominated Adviser & Joint Broker	Shore Capital Cassini House 57 St James's Street London SW1A 1LD
Joint Broker	Nplus1 Singer Capital Markets Limited 1 Bartholomew Lane London EC2N 2AX
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Solicitors	DAC Beachcroft LLP 25 Walbrook London EC4N 8AF
Registrars	Neville Registrars Limited Neville House Steel Park Road Halesowen West Midlands, B62 8HD
Financial PR	IFC Advisory Limited 24 Cornhill London EC3V 3ND

Mission Statement

“Warpaint’s mission is to provide access to an extensive range of high quality cosmetics at an affordable price.”

We strive to fulfil our mission by:

- Utilising marketing and advertising initiatives that are efficient
- Creating innovative, eye catching and desirable packaging
- Creating cosmetic products of high quality
- Always striving to improve and better our brand and product offers
- Being at the cutting edge of trend

Our Values

- We use high quality ingredients
- We manufacture products that are safe and kind to the user
- We follow and adhere strictly to all relevant regulatory compliance in all territories where we sell our products

Our Ethics

- We do not test our products on animals regardless of the regulatory requirements we encounter
- We always seek the best value and quality from every constituent ingredient
- We endeavour to ensure that all our suppliers mirror our values and understand our principles

Our Ethos - Who will you be Today?

- To give customers the ability and the flexibility to style themselves based on who they want to be
- To engage customers by interacting with them directly using a variety of media platforms
- To make our products easily available to our customers
- To empower our customers by seeking their feedback, interaction and views

Headline results for the year to 31 December 2019

Warpaint London plc ("Warpaint", the "Company" or the "Group") is made up of two divisions.

The largest division sells own brand cosmetics under the lead brand names of W7 and Technic. W7 is sold in the UK primarily to retailers and internationally to local distributors or retail chains. The Technic brand is sold in the UK and continental Europe with a significant focus on the gifting market, principally for high street retailers and supermarkets. In addition, this division supplies own brand white label cosmetics produced for several major high street retailers. The Group also sells cosmetics using our other own brand names of Man'stuff, Body Collection, Vintage, Very Vegan, and Chit Chat.

The other division trades in close-out and excess inventory of branded cosmetics and fragrances from around the world.

	Statutory Results		
	Year ended 31 Dec 2019	Year ended 31 Dec 2018	% Change
Revenue	£49.3m	£48.5m	1.6
Profit from operations	£2.1m	£4.9m	-56.0
Profit from operations margin	4.3%	10.1%	
PBT	£1.8m	£4.7m	-62.5
EPS	1.8p	4.7p	-61.7
Cash	£2.7m	£4.0m	

	Adjusted Statutory Results		
	Year ended 31 Dec 2019	Year ended 31 Dec 2018	% Change
Revenue	£49.3m	£48.5m	1.6
Adjusted profit from operations	£5.6m*	£8.4m*	-33.3
Adjusted profit from operations margin	11.4%*	17.3%*	
Adjusted PBT	£5.2m*	£8.3m*	-37.3
Adjusted EPS	6.3p*	9.3p*	-32.3
Cash	£2.7m	£4.0m	

*Adjusted for £0.2 million of exceptional costs (2018: £0.3 million), £2.4 million of amortisation of intangible assets (2018: £2.3 million), impairment costs of £nil (2018: £0.8 million), and share based payments of £0.8 million (2018: £0.1 million).

Post-Period End Highlight – Covid-19 pandemic

- As announced in February 2020, a core range of 100+ W7 products are being displayed in 56 Tesco stores across the UK
- Prior to March 2020, current year trading was at the upper end of the board's expectations, however many of the Group's retail customers in the UK and internationally have since been impacted by the lockdown caused by the Covid-19 pandemic
- The 2020 Christmas order book has continued to build despite the Covid-19 pandemic (April 2020: £6.9 million, April 2019: £7.8 million)
- The focus is on the wellbeing of staff and protection of the business. Remote working has been introduced for staff and for those staff working in our offices and warehouses social distancing practices have been put in place to ensure their safety
- Cash preservation measures have been implemented and discretionary spend reduction initiatives have been introduced:
 - Those staff not working, representing over 70% of UK staff, have been furloughed
 - With the approval from our landlords we have deferred rental payments
 - To preserve cash resources the board has decided not to recommend the payment of a final dividend for the year ended 31 December 2019 (2018: 2.9p per share). The total dividend for the year is therefore 1.5p per share (2018: 4.4p per share)
- Having modelled a number of scenarios, the board confirms that the Group has sufficient financial strength to withstand ongoing disruption to its activities for at least the next twelve months without the need to seek additional funds [even if the current lockdown measures were to remain in place]
- At 30 April 2020, the Company had cash of £3.7 million, hire purchase and term debt of £0.5 million, and had made use of £0.3 million of its Bank trade finance facility

Financial Highlights

- Group revenue increased by 1.6% to £49.3 million (2018: £48.5 million)
 - International revenue increased by 8.3% to £26.6 million (2018: £24.5 million)
 - UK revenue was 46% of total (2018: 49%) as sales to the EU continued to grow
 - Close-out revenue for 2019 of £7.7 million (2018: £7.6 million)
- W7 and Technic brands delivered continued export sales growth of 8.6% year on year, particularly in the EU (growth of 26.5%)
- Cash at the year end of £2.7 million (31 December 2018: £4.0 million)
- Cash generated from operating activities of £4.4 million (2018: 4.4 million)
- Gross profit margin reduced to 33.5% (2018: 35.5%) due to impact of lower margin US sales and adverse exchange rates year on year
 - Excluding US business and on a constant currency basis, gross profit margin improved to 39.0% (2018: 36.9%)
- Adjusted profit from operations of £5.6*1 million (2018: £8.4*1 million). The majority of the movement in adjusted profit is due to:
 - Inclusion of Marvin Leeds Marketing Services, Inc ("LMS") £0.6 million operating costs for the whole of 2019;
 - Overall reduction in gross profit margin contribution;
 - Increased PR and marketing spend of £0.6 million to support sales initiatives; and
 - FX charge in the year £0.2 million (2018: FX gain £0.4 million);
- Reported profit before tax of £1.8 million (2018: £4.7 million)

- Excluding US business and on a constant currency basis, plus adding back the effect of IFRS16, reported profit before tax for 2019 was £3.7 million (2018: £3.9 million)
- Adjusted earnings per share of 6.3p*¹ (2018: 9.3p*¹)

Operational Highlights

- International growth strategy in place and delivering
- Action taken at Retra Holdings Limited ("Retra") to improve new product development and increase all year round sales to complement seasonal gift sales
- Action taken at LMS to reduce cost base, improve margin and provide full range of Group product and brands
- Active discussions with other major retailers in the UK and overseas

*¹ Adjusted for exceptional costs, amortisation of intangible assets, impairment costs and share based payments. Adjusted numbers are closer to the underlying cash flow performance of the business which is regularly monitored and measured by management.

Chairman's Statement

I am pleased to report on the Warpaint Group's trading performance in the year ended 31 December 2019 and the positive start to the current trading year. However, currently the corona virus pandemic is casting a giant shadow over world economies and Warpaint is not immune to it. As was stated in our update to the market on 9 April trading for the first two months of the current year was at the upper end of the board's expectations, but since then there has been a substantial reduction in Group sales as a result of lockdowns, which have caused the closure of many of our retail outlets in the UK and in our other markets.

The directors have prepared forecasts for the period to December 2021, which are based on assumptions of sales, margin and cost savings, which the directors believe are conservative, although the unknown impact of Covid-19 could impact them negatively or positively. In preparing these forecasts a number of different scenarios were modelled, including a complete lockdown in all our markets to the end of 2020. In this unlikely event the directors believe that Warpaint has sufficient financial strength to withstand such disruption for at least the next 12 months. The directors believe that the Company's business model remains robust.

Results

Like for like numbers and adjusted numbers will be quoted where appropriate in the annual report in order to give shareholders clarity in understanding the results for the year. Like for like numbers are comparisons year on year of the US business LMS as if it had been part of the Group throughout 2018. Adjusted numbers exclude exceptional costs (made up of acquisition costs, staff restructuring costs, inventory relocation costs in the US, and certain legal costs), amortisation in relation to acquisitions, impairment costs and share based payments.

Adjusted profit before tax was £5.2 million (2018 £8.3 million) on revenue of £49.3 million (2018 £48.5 million) with basic earnings per share of 1.8p (2018 4.7p) and adjusted earnings per share of 6.3p (2018 9.3p). Cash at 31 December 2019 was £2.7 million (31 December 2018 £4.0 million). Although revenue increased in 2019, profit decreased mostly due to a reduction in gross margin. This was primarily caused by lower margin sales in the US and adverse exchange rates compared to 2018.

Our international growth strategy is now in place and action has been taken at LMS to reduce the cost base, improve margin and provide a full range of Group products and brands. The proportion of turnover generated in the US in 2019 was 10% compared to 11% in 2018. Action has been taken at Retra to improve new product development and increase all year round sales to compliment seasonal gift sales. The Group also continued to invest in PR and marketing activities during the period, to support sales activity. I am pleased to report that since the year end the W7 range has been successfully launched into Tesco, and early results are encouraging. Active discussions are taking place with other major retailers. These are exciting opportunities for Warpaint and we continually review and refresh our product offerings and are well-placed to grow.

It is the board's opinion that without the impact of the corona virus pandemic 2020 would have been a year of recovery and improvement in financial performance for the Group. However, as I have said above it is difficult to say with any certainty what the impact will be. The outbreak will inevitably have a negative impact on the business, but it is too early to determine the level of this impact on the Company's results for the current financial year. I should emphasise that to date, there has been no material issue with the Company's supply chain and the Company maintains healthy levels of stock.

Dividend

Due to the uncertainty in trading conditions created by the corona virus pandemic and as previously announced the Board has decided not to recommend a final dividend for the year ended 31 December 2019. The payment of dividends will be reconsidered when trading conditions return to normal and in the light of the Group's cash resources and forward orders at that time.

Board and People

As always, I would like to thank my fellow board members and the Group's employees for their dedication and commitment to the Company. The Company has had a challenging period in 2019 but it remains progressive, energetic and dynamic and is driven by the commitment of its employees. During 2019, the board was restructured so that Sam Bazini became the sole chief executive and Eoin Macleod became managing director. This enables Eoin to concentrate on sales and to drive future profitability of the Group.

Annual General Meeting

The annual general meeting will be held on 26 June 2020 at 9am. In the light of the continuing public health restrictions associated with the corona virus pandemic, further details of the annual general meeting arrangements will be provided when the notice of annual general meeting is sent to shareholders.

Outlook

Despite the challenges of 2019 and the current corona virus pandemic, I do believe that the Company is well-placed for the future. The uncertainty caused by the corona virus pandemic cannot be underestimated but the important thing is that the Group is financially sound and in a position to deal with all current uncertainties and implement its strategy.

Clive Garston

Chairman

13 May 2020

Chief Executive's Statement

2019 was a difficult year for Warpaint against a backdrop of continued Brexit and political uncertainty, a falling US\$ exchange rate and a challenging retail market, particularly in the UK. However, the business has shown resilience and adapted to the changing market conditions, managing to increase international sales by 8% and seeing an improvement in the performance of Retra, through which our Technic brand sales are made.

Our strategy of producing a wide range of high quality cosmetics at an affordable price has remained our key focus and we are very pleased with the reaction that our expanding product range received during the year, for both our W7 and Technic own brands.

Sales of our branded colour cosmetics accounted for 80% of revenue (2018: 79%). The sale of colour cosmetics by the Group under its own brands remains its primary strategic focus.

W7

The Group's lead brand remains W7 with sales in 2019 being 46% of total revenue (2018: 49%). As reported in 2018, tough trading conditions in the UK high street persist and certain retailers are struggling to survive in their present form. As a consequence of this UK revenue of W7 was down 5%. The ongoing Brexit uncertainty and a winter election adversely affected spending patterns, shopping behaviour and consumer attitudes. We have implemented a strategy in the UK which we believe will increase sales of the W7 brand in the medium term, we are seeing the green shoots of this strategy with the recent successful launch of the W7 brand into Tesco. However, this has now been impacted by the effect of the corona virus pandemic. Whilst the UK was challenging, the W7 brand continued to grow in Europe increasing sales by 21%. In the US sales were down 11% on a like for like US\$ basis, partly due to the collapse of a customer, Forever 21 in September 2019. In the rest of the world sales were down 18%, with falls in Puerto Rico, China and New Zealand, but there were increased sales in other markets, notably Australia, Peru and South Korea.

Technic

Since the acquisition of Retra and its Technic brand in November 2017, we have taken steps to improve the sales of the all year round cosmetics sold under the Technic brand, and to make the Retra business profitable throughout the whole year, not only in the second half when Christmas gifting is delivered. Sales of Technic in 2019 were 34% of total Group revenue (2018: 30%), with gifting (including own brand white label) now accounting for 48% of Retra sales (2018: 55%) as the improved all year round range gains a larger share of the sales mix. In 2019 the UK revenue of Technic was down 3% for similar reasons to the fall in sales of W7. The Technic brand continued to grow in Europe with sales up 35% compared to 2018. In 2019 the US sales of the Technic brand were material for the first time at £0.5 million and in the rest of the world sales were up 54%. Retra delivered break-even EBITDA for the first half of the year compared to a loss of £0.5 million in the same period last year, entirely through sales of the improved Technic all year round cosmetics. The Retra business also produces and sells own brand white label cosmetics for several major high street retailers, with sales being 5% of Group revenue (2018: 5%).

Close-out

The close-out division represented 15% of the overall revenue of the Group (2018: 16%). Whilst not a core focus, this side of the business provides a significant source of intelligence in the colour cosmetics market and access to new market trends.

New Product Development

New Product Development remains a crucial part of the Groups's activity, For a brand like W7, it is essential to provide great new product development that is on trend, fast to market and meets the consumers quickly changing needs. A healthy pipeline of new products is the continual focus of our growing New Product Development Team. It ensures great products are launched quickly into the market, this is something our customers demand and expect from us. For example, the Group launched Socialite, an eye colour palette under the W7 brand in May 2019 and it became the Groups biggest selling line in the year. Using manufacturing partners in China and Europe for our Group branded products, gives us the flexibility to choose those manufacturers we feel deliver the best product quickly, for the best price, and meet our legal and ethical compliance requirements. Helping in this process is the Group's Hong Kong based subsidiary sourcing office (acquired as part of the Retra transaction) and its China subsidiary (Jinhua Badgequo Cosmetics Trading Company Ltd), with local employees able to explore new factories and oversee quality control and ethical sourcing. The Group's China subsidiary also invoiced £0.12 million of locally made sales (2018: £0.03 million).

e-Commerce

The W7 brand is supported by an informed customer base, driven by the success of beauty blogs, celebrity endorsement and social media. We have applied the same approach during the year to the Retra brands with Technic and Man'sstuff now having their own bespoke e-commerce sites. A similar marketing strategy has been deployed for our US e-commerce site, with sales made in local currency and with local fulfilment in place.

US Operations

The Group's US distributor, LMS is now fully integrated into the Group. Prior to its acquisition in August 2018 two thirds of LMS revenue was from distributing W7 products, the remainder being the sale of other branded cosmetics through its close-out activities. The US is the largest colour cosmetics market in the world and developing sales into the region is a strategic goal for the growth of our brands. During the year we increased our marketing spend in the US to drive brand awareness and to help support sales initiatives. We implemented a number of measures to improve the margin in the US business, including changing our third party warehousing arrangements to reduce costs. As a result we have seen an improvement in margin. Nevertheless, the performance of LMS in 2019 was disappointing, and as a result at the start of this year we took further action by restructuring the staff levels in the US to save \$0.4 million in 2020.

Marketing and PR

In 2019 we launched some ground breaking campaigns in both the traditional and social media environment. Our award winning "Here Come the Boys" campaign gained enormous social media coverage and was also featured by the Daily Mail, Good Morning America and ABC News. The W7 brand was also a key part of the "Being Reuben" television documentary airing on Quest Red in December 2019. Social media engagement continues to grow across all platforms and in addition we have invested in a new peer to peer review system and a B2C loyalty programme.

Covid-19 update and planning

Covid-19 has had a significant impact on people, societies and of course businesses and customers, and Warpaint is no exception. At the beginning of the outbreak in China, our initial focus was around the supply of

our colour cosmetic products sourced in China, this being the main region of supply to the Group. This has since returned to normal operating levels and we do not expect a material impact on our inventory.

As countries began to lock down first in Europe, then the UK and US, consumer demand switched to essential items and food, and away from colour cosmetics. At the same time many of our customers who are not in the essential services sector have closed down temporarily, resulting in the cancellation, reduction or deferment of their orders. More recently we have seen a gradual improvement in orders from customers in all regions, however, overall performance is still well below our pre-Covid-19 expectations, and it remains too early to provide guidance on the impact of an extended period of lock down on our customer base and any reaction to a sustained period of economic contraction.

The wellbeing of Wapaint staff remains our primary concern, whilst also continuing to trade to support the durability of our business for stakeholders. We have taken significant preventative measures across our business, both to protect the health of our staff and to minimise operational disruption. We have reduced discretionary spend, those staff not working because of the decrease in business activity have been furloughed and with the approval from our landlords we have deferred rental payments. Those staff still working to maintain operations have done so wherever possible from home, and for those staff working in our offices and warehouses social distancing practices have been put in place to ensure their safety.

Our online platforms continue to do business and our products in the UK are distributed from our own facility, and in the US through a third party aggregator. Whilst encouraging that online sales continue they are not significant when compared to the normal level of Group sales. Whilst the Covid-19 crisis continues online sales are increasing significantly in the UK, this allows us to remain engaged through online activities with our consumers.

This is a difficult period for everyone, but we believe that with the actions we have taken and the Group's current financial resources, we are well placed to weather the Covid-19 crisis. We have a global business and the capacity, expertise and strategy to drive our future growth. Before the Covid-19 crisis trading to the end of February 2020 was at the upper end of the board's expectations, with higher sales, better margin, reduced overheads and higher PBT than budget, demonstrating that our business model is strong and that our brands are resonating with customers and consumers. In the short term, Covid-19 will certainly have an impact on our financial performance, however we are well positioned to take advantage of any improvement in market conditions.

We continue to monitor the impact of the Covid-19 pandemic, ensuring that we look after customers and staff and take any additional steps if required. Covid-19 will undoubtedly influence our short-term business decisions, however our focus for the remainder of the year remains on the delivery of our strategic plan which the board have reviewed and considered in light of Covid-19 and believe remains appropriate and correct.

Strategy

In early 2018, the board adopted a three-year strategic plan for the business. This is measured, monitored and reviewed annually and reset using market insight and trend information in line with the budget process. The plan is designed to drive shareholder value and has defined targets for sales, EBITDA, earnings per share and cash generation, these targets are currently under review whilst we work through the Covid-19 pandemic. The strategic plan was amended by the board in 2020 and comprises of six key pillars:

1. Develop and build the Group's brands and provide new product development that meets changing trend and consumer needs

The Group continues to review, evaluate and develop the Groups brands which also provides the opportunity to give bespoke and exclusive solutions to both current and potential new customers. We continue to focus on developing new products that enhance the offering of the Brand in the current categories that they participate, whilst at the same time launch the Brand into new Categories. We have launched, for example, a range of W7 Skin Care products in 2020 into the fast growing Skin Care Sector, that is already being well received by customers and consumers alike.

2. Develop and nurture the current core business

A major objective of the business will be to continue to develop and grow the presence of the Warpaint brands beyond their existing worldwide customer base. There is still however, significant potential to be realised in the current customer base. The Group intends to do this by supporting our customers with relevant new products; by using social media to draw consumers into partner stores; and by cross selling the Group's brands where appropriate. Utilising this collaborative model has proven to be successful in a number of countries and will be further driven over the life of the three-year plan.

3. Grow Market Share in the U.K.

The business continues to focus on developing the presence of the Group's brands in channels that our consumers shop in. This will increase accessibility and drive profitable market share growth. As a result of this strategy, the Group has successfully launched the W7 brand into Tesco and continues to have active discussions with other major retailers who are currently in channels that the Group is yet to materially supply to. Over 75% of the U.K. Market remains largely unexploited and expanding the U.K. customer base is a key focus of Management. This is particularly opportune currently as retailers across all sectors increasingly seek to provide great value to their customers at affordable prices.

4. Grow market share in the U.S. and China

The U.S. and China continue to provide a major growth opportunity for the Group. In the US, the Group continues to investigate the optimal route to market through established agency channels and/ or direct to retailers. In China the Group are conducting business locally through our Chinese subsidiary Company. We are also continuing to register products for sale in China in order to grow our total offering and increase sales. This has led to the development of relationships with distributors in the region who have the capability to drive sales of the W7 brand there.

5. Develop the online/ e-commerce strategy for brand development and sales

We continue to develop and build our major brands by utilising brand ambassadors, influencers and make-up artists to engage actively with our target audience. The Group wants to ensure that consumers are adequately inspired and educated on how the Group's products can be used to experiment and achieve different looks. The aim of these activities is to create an interactive community of consumers and drive recommendation. Developing the social media strategy also directly impacts the Groups online sales strategy. As an example,

45% of W7's target customers are buying cosmetics online. Opportunities exist to make one of the Group's brands exclusively available online.

6. Develop the appropriate organisational structure, people strategy and organisational efficiency

We continue to review the businesses' structures, resources and capabilities with the objective of delivering the three-year strategic plan, communicating the plan to ensure that all employees are engaged, and rewarding employees suitably for doing a good job.

Brands

During 2019 the Group continued to focus on the development of its brands. Since acquiring Retra in November 2017 the focus has been on assisting the Retra product development team to make an improved, all year round, cosmetics offering and, the Retra sales team to get listings for the Technic brands in accounts that the W7 brands were already listed with, particularly overseas. This has helped the Technic brands in 2019 to gain a larger proportion of Group brand sales compared to 2018.

Brand % share excluding the sales of close-out and own brand white label

	2019	2018	
	%	%	
W7 brands	57%	62%	Including sales of W7 and Very Vegan
Technic brands	43%	38%	Including sales of Technic, Body Collection, Man'sstuff, Vintage and Chit Chat
	100%	100%	

Products

The largest selling product categories across all the Group sales, are eye products, face make-up, gift sets, nail products and lip products, which together represented approximately 90% of revenue in 2019 (2018: 85%).

The 12 months to 31 December 2019 product sales split is shown below:

Eyes	27%
Face	23%
Gift	21%
Nails	10%
Lip	9%

Accessories & Sets	4%
Men	4%
Brushes	2%

Group sales of gifting decreased by 5% to £10.5 million for the year compared to 2019. Technic gifting decreased by 3% to £9.1 million (2018: £9.4 million) and W7 gifting decreased by 16% to £1.3 million (2018: £1.6 million).

Customers & Geographies

The largest customers for sales of our Group brands are in the UK, US, Australia and Europe. In 2019 our top ten customers represented 49% of revenues (2018: 49%). Group sales are now made in 58 countries (2018: 67 countries).

US

We achieved modest sales growth in the US through LMS. Group sales in the US were up in the year to \$6.3 million, increasing 1% compared to 2018 on a like for like basis. Sales of our W7 and Technic brands into the US were up 4% in the year to \$3.9 million, compared to 2018 on a like for like basis despite the collapse of Forever 21. Current customers include Macys Backstage, Marshalls, Bealls and TJ Maxx.

Europe

Group sales in continental Europe increased by 17% to £18.8 million compared to 2018. The W7 brands have seen excellent European growth of 21% in 2019, with sales of £9.6 million. The Technic brands have seen significant European growth of 35% in 2019, with sales of £7.0 million, through the introduction to existing W7 customers. Sales for the Groups brands into Europe are mainly to Spain, Denmark, Sweden and Germany.

Rest of the World

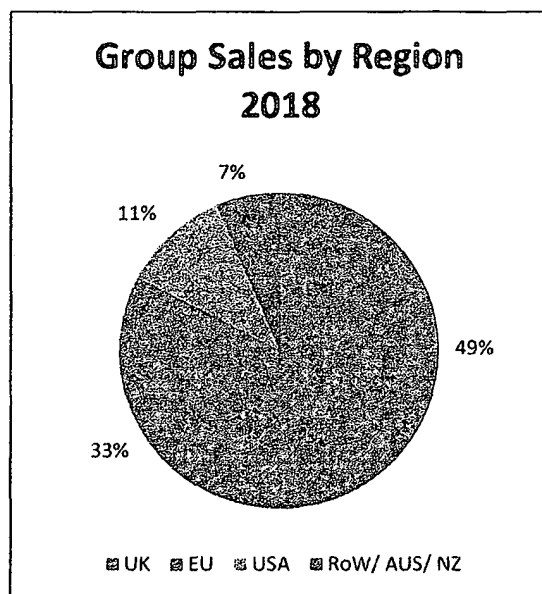
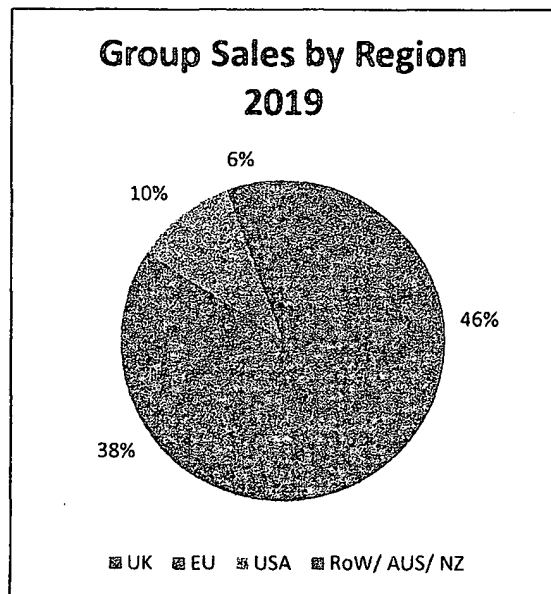
Sales in the rest of the world for the Group were down by 11% to £2.8 million in the year compared to 2018. The second half of the year saw an improvement, as rest of the world sales at the half year point were down 30%. However, within this we saw revenue growth in certain countries. Australia is a key country in the rest of the world region with sales 17% ahead of 2018. During the year we changed our distributor in China and Hong Kong causing a loss in sales whilst the switchover was in progress.

UK

Trading conditions in the UK were challenging because of the UK high street slow down and ongoing Brexit anxiety, with Group sales in the UK down by 5% to £22.7 million, compared to 2018. Our Group brands only sales in the UK were down 4% to £16.9 million for 2019 compared to 2018 (this excludes close-out and own brand white label cosmetics), most of which was due to the loss of customers that have gone into liquidation or closed their businesses, customers that have restructured with less outlets, or customers that have ongoing credit issues. We are, however, addressing this through targeting a number of new UK retailers for the Group, starting with a successful launch in 56 Tesco stores in February 2020.

The top ten UK customers for the Group accounted for 64% of UK sales in 2019 (2018: 57%). Sales to these customers grew by 6% in 2019, compared to 2018.

The 12 months to 31 December 2019 and 31 December 2018 regional sales split for Group total sales is shown below:



Summary

We are extremely grateful to our employees for their continued loyalty, commitment and hard work during 2019, a year that was difficult because of Brexit, falling US\$ rate and challenging retail markets.

Our resolve is now further tested in 2020 by the outbreak of Covid-19 and resulting lockdowns affecting retail outlets. Again we thank the team across the Group in the UK, EU, US, Hong Kong and China who remain committed to the Groups strategy, and where possible, and in safety are still working to keep our business operational.

Sam Bazini

Chief Executive Officer

13 May 2020

Financial Review

Group revenue improved in the year by 2%, whilst adjusted profit before tax decreased in the year by -37%. We remain focused on margin, being net debt free, and generating cash.

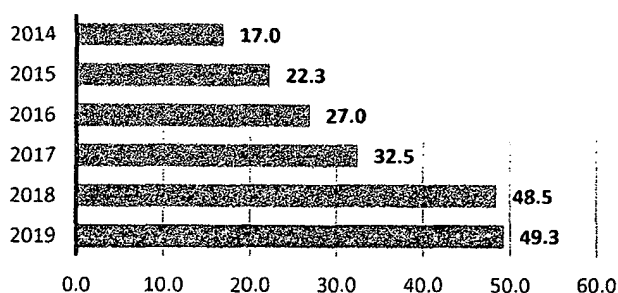
On 2 August 2018, the Group acquired LMS. This annual report has been prepared in accordance with IFRS as adopted by the European Union, which requires use of acquisition method for business combinations. The reported figures for 2018 included the results of LMS for five months post acquisition, therefore in order to aid shareholders' understanding of the underlying performance of the business we have focused our comments on the consolidated statement of comprehensive income for the year ended 31 December 2019 compared with the consolidated statement of comprehensive income for the year ended 31 December 2018, with reference where appropriate to "like for like" numbers which include the LMS business for the whole of 2018. LMS was a customer of the Group prior to acquisition and distributed the W7 brand and close-out branded cosmetics throughout the period 1 January 2018 to 1 August 2018. Like for like numbers exclude the sales made to LMS as a customer of the Group and instead includes the business conducted by LMS prior to acquisition.

Headline results, shown below, represent the performance comparisons between the consolidated statements of income for the years ended 31 December 2018 and 31 December 2019, that include the trade of the existing own brand and close-out divisions for the whole of each year, plus the trade of LMS from the date of its acquisition.

KPIs

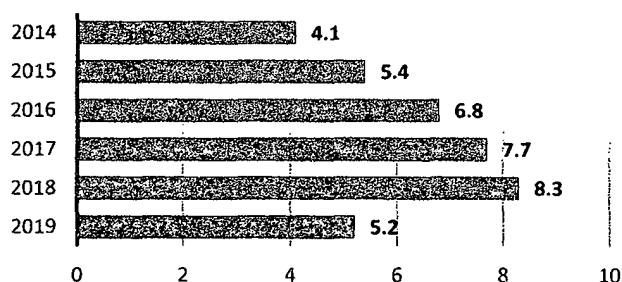
Revenue (£m)

2019: £49.3 million + 2%



Adjusted profit before tax* (£m)

2019: £5.2 million -37%



*Adjusted for £0.15 million of LMS staff restructuring plus inventory relocation costs (2018: £0.16 million of LMS acquisition costs), and £0.03 million of Retra legal costs (2018: £0.10 million of Retra acquisition costs, plus £0.08 million of Retra staff restructuring costs), and £2.4 million of amortisation of intangible assets (2018: £2.3 million) and Retra impairment costs of £nil in the year (2018: £0.8million) and share based payments of £0.8 million (2018: £0.1 million).

Covid-19 Stress Testing and Liquidity

The uncertainty about the size, time periods and effect of the coronavirus pandemic means it is not possible with any degree of precision to determine the impact on the Groups results in 2020. Consequently, we have modelled a range of scenarios, including a 3 month shut down of the business, and for the next twelve months as a worst case scenario. In each scenario, mitigating actions within the control of management, including reductions in areas of discretionary spend, have been modelled, as well as the furlough of the majority of the staff and deferment of rents. Under the scenarios modelled, there are sufficient cash balances to meet liabilities as they fall due and so the board is confident that the Group has sufficient financial strength to withstand the current disruption to its activities. The board therefore believe that it remains appropriate to prepare the financial statements on a going concern basis. (see Note 1 to the financial statements)

Revenue

Group revenue for the year grew by 1.7% from £48.5 million in 2018 to £49.3 million in 2019.

Internationally, Group revenue grew 8.3% from £24.5 million in 2018, to £26.6 million in 2019. In Europe Group sales increased by 16.7% to £18.8 million (2018: £16.1 million). In the rest of the world Group sales fell by 10.5% to £2.8 million (2018: £3.1 million). In the US Group sales fell by 6.0% to £5.0 million (2018: £5.3 million), however on a like for like US\$ basis US sales increased by 0.9% to \$6.32 million (2018: \$6.26 million).

Our strategy for growth includes continuing to develop and build our Group brands, and provide new product development that meets changing trends and consumer needs, to develop and nurture the current core business, to grow market share in the UK, US and China, to develop an online strategy for brand development and sales and, to put in place appropriate organisational structure, people and efficiencies in the business. A detailed commentary on our sales growth strategy and trading performance is included in the CEO report.

Own brand sales were £39.2 million in the year (2018: £38.1 million). Our W7 brand had sales in the year of £22.5 million (2018: £23.7 million). Our Technic brand contributed sales of £16.7 million in the year (2018: £14.4 million).

Our Retra business had sales of retailer own brand white label goods of £2.5 million in the year (2018: £2.7 million). The white label business is traditionally cost competitive and Retra chooses which projects to undertake based on commercial viability, in particular margin. In 2019 it was decided not to tender for certain projects when the margin went below the minimum requirement.

The close-out business revenue grew by 1.3% from £7.6 million in 2018 to £7.7 million in 2019.

Product Gross Margin

Gross margin for the Group decreased by 2.0% from 35.5% to 33.5%.

Gross margin has reduced largely due to:

- The geographic mix of sales;
- The mix of our brands sold;
- Sales made by LMS in the US at low margin; and
- The impact of a falling US\$ year on year.

Sales in the UK fell 5.2% in the year, whereas internationally sales grew 8.3% and these international sales are typically made at a slightly lower margin than our domestic sales.

Historically, the W7 brand achieves the highest gross margin on sales, particularly in the UK, followed by the Technic brands, with close-out sales being the lowest margin across the Group. Sales of our lead brand W7 fell 4.9% in the year, however our Technic brands grew 15.5% and close-out sales remained flat.

LMS sales in the US in the year were £5.0 million at a margin of 12.1% (from the date of acquisition in August 2018: £2.4mil at 3.2%). Whilst the margin achieved by LMS in the US since our acquisition has been increasing month by month the impact on gross margin in the year has been detrimental. Since the start of 2020 we have seen margin at LMS continue to improve (before the impact of Covid-19).

The average US\$ rate in 2019 was \$1.2763 compared to \$1.3410 in 2018, a fall of 4.8%. For most of 2019 the dollar was below \$1.30, making it impossible to cover our purchasing costs at a similar dollar rate to 2018, indeed as the buying season reached its peak (being July through to September) the US\$ was closer to \$1.20. The impact of the falling dollar rate on gross margin was a reduction of 2.8%, equivalent to £1.4 million.

When examining the Group gross margin without sales in the US for 2019 and 2018 pre and post-acquisition of LMS, it decreases year on year by 1.0%, to 35.9%. On further analysis and rebasing the dollar cost of goods in 2019 at the same purchase rate as achieved in 2018, and removing sales in the US for 2019 and 2018 pre and post-acquisition of LMS, gross margin improves by 2.1%, to 39.0%.

We are not experiencing cost pressure on our manufactured pricing and making good use of our Hong Kong buying office to ensure this continues. Currency pressure due to Brexit is mitigated with a discount mechanism linked to the US dollar exchange rate from our key supplier in China, by moving production to new factories of equal quality to retain or improve margin, and from US dollar revenue which continues to provide a natural hedge. There has been a lot of hard work carried out in 2019 to move a significant proportion of Group buying to new factories in China that have now delivered an improved margin for the same quality of product. We remain focused on improving gross margin in both our own brand and close-out businesses.

The Group brands segment had sales of £41.6 million at a margin of 34.9% (2018: £40.9 million at a margin of 35.9%). Margin has reduced largely due to the geographic mix of sales, the mix of our brands sold, sales made by LMS in the US at low margin, and the impact of a falling US\$ year on year.

The close-out segment of the Group had sales of £7.7 million at a margin of 25.7% (2018: £7.6 million at a margin of 33.2%). Margin has reduced partly due to the increased amount of close-out sales made by LMS in the US at low margin, as we decided to clear locally purchased close-out parcels to focus LMS on the Group brands. In addition margin reduced from the impact of a falling US\$ year on year.

Operating Expenses

Total operating expenses before exceptional items, amortisation and impairment costs, depreciation, foreign exchange movements and share based payments, and the effect of reclassifying rent in 2019 for IFRS16 as depreciation and finance costs, increased by £1.7 million to £10.3 million in the year. The majority of the movement in operating expenses is due to:

- An increase in PR and marketing spend of £0.6 million to support sales initiatives;
- The inclusion of a full year of operating costs for LMS in the US, an additional £0.6 million;
- Additional staff costs in the year of £0.1 million;
- A full years rent charge for an extra warehouse at Retra, an additional £0.1 million; and
- An increase in other overheads of £0.3 million.

The most significant costs in the Group are wages and salaries of £5.5 million (2018: £5.1 million), rent and rates (before the reclassification for IFRS16) of £1.2 million (2018: £1.1 million) and PR and marketing for our brands of £1.2 million (2018: £0.6 million). The increase in wages is part inflationary, although mainly the inclusion of wages at LMS for a full year in 2019. The increase in rent and rates is in our Retra business which leased an extra warehouse facility part way through 2018 rather than using third party logistics to fulfil orders, with now a full years charge in 2019. The increase in PR and marketing is from activity for the first time in the US to promote our W7 brand, increased domestic spend on all our Group brands and continued support for customer initiatives, particularly in Europe where we have seen good growth in 2019.

Warpaint remains a business with most operating expenses relatively fixed and evenly spread across the whole year. We continue to monitor and examine significant costs to ensure they are controlled and strive to reduce them. In addition, the increased scale of the business has given the Group increased buying power.

Profit Before Tax

In 2019 Group profit before tax was £1.8 million compared to £4.7 million in 2018, a fall of 62.5%.

The material changes in profitability between 2019 and 2018 were:

	Effect on Profit
• Reduction in Group gross margin of 2.0% for 2019	(£1.0) million
• Gross margin on increase in sales for 2019 at 33.5%	£0.3 million
• Increase in operating expenses (see above heading)	(£1.7) million
• Impact of IFRS16 Leases on the 2019 numbers only	(£0.1) million
• No impairment charge in 2019	£0.8 million
• Decrease in exceptional costs in the year	£0.1 million
• FX charge in the year £0.2 million (2018: FX gain £0.4 million)	(£0.6) million
• Increase in the cost of the LTIP and EMI share option schemes	(£0.7) million

When examining the Group profit before tax without the LMS business in the US for 2019 and 2018 pre and post-acquisition, rebasing the dollar cost of goods in 2019 at the same purchase rate as achieved in 2018, plus adding back the effect of IFRS16 Leases in 2019, profit before tax for the year was £3.7 million compared to £3.9 million in 2018.

Exceptional Items

Exceptional costs in 2019 included £0.15 million of LMS staff restructuring plus inventory relocation costs, and £0.03 million of Retra legal costs. (2018: £0.16 million of acquisition costs as they were one off legal and

professional fees incurred in acquiring LMS on 2 August 2018, plus £0.10 million of professional fees relating to the acquisition of Retra in 2017, plus £0.08 million of staff restructuring costs at Retra).

Tax

The tax rate for the Group for 2019 was 23.0% compared to the UK corporation tax standard rate of 19.0% for the year. Some of the costs of the acquisition of Retra and LMS have been disallowed for tax purposes which has increased the effective tax rate. Since the acquisition of LMS, the Group is exposed to tax in the US at an effective rate of approximately 25% and in other jurisdictions the Group operates cost centres, but these are not materially exposed to changes in tax rates.

Earnings Per Share

The statutory basic earnings per share was 1.78p in 2019, a decrease of 61.8% on the 4.66p achieved in 2018.

Adjusted earnings per share before exceptional items, amortisation costs, impairment charges and share based payment costs was 6.26p in 2019, a decrease of 32.4% on the 9.26p achieved in 2018.

Dividends

The board in the interests of prudence given the considerable on-going uncertainty, and in order to further preserve the Company's cash resources, has resolved not to recommend a final dividend for 2019, making the interim dividend of 1.5 pence per share paid on 15 November 2019 in effect the only dividend declared in respect of 2019 (2018: Total dividend of 4.4 pence per share, of which the interim dividend was 1.5 pence per share and the final dividend was 2.9 pence per share). The dividend for the year was covered 4.2 times by adjusted earnings per share.

Cash Flow and Cash Position

Net cash flow generated from operating activities was £4.4 million (2018: £4.4 million), after payment of the £0.2 million (2018: £0.3 million) exceptional items previously referred to. The Group's cash balance decreased by £1.3 million to £2.7 million in 2019 (2018: £4.0 million). The cash generated was principally used to make dividend payments in the year.

We expect capital expenditure requirements of the Group to remain low, with a small uplift to fund the cost of display units in Tesco. In 2019 £0.28 million (2018: £0.39 million) was spent on new computer software and equipment, warehouse improvements and plant for additional warehouse storage at the Retra location, sales display units for use in store by customers, and other general fixtures and plant upgrades.

IFRS 16 Leases

The Group has adopted IFRS 16 from 1 January 2019, but has not restated comparatives.

From 1 January 2019, in place of rent of £0.8 million for the year charged to the consolidated statement of comprehensive income, there were lease finance costs of £0.2 million and depreciation of right-of-use assets

of £0.7 million. The impact of IFRS 16 on the consolidated statement of comprehensive income for the year is an additional charge of £0.1 million (see Note 1 to the financial statements).

Balance Sheet

Management are continually monitoring trade receivables and inventory levels to avoid working capital lock up as the business continues to grow.

Trade receivables are monitored by management to ensure collection is made to terms, to reduce the risk of bad debt and to control debtor days. At the year end trade receivables were £10.3 million (2018: £10.9 million), the decrease on 2018 is mainly due to faster collections from our larger customers in the UK and overseas that represent a greater proportion of our business in 2019. The provision at the year end for bad and doubtful debts carried forward is £0.04 million, 0.4% of gross trade receivables (2018: £0.11 million, 1.0%).

Inventory was higher at the year end at £16.4 million (2018: £15.5 million). The rise in inventory was due to the increase in range offering across the Group and LMS who now hold a full range of our brands locally in the US. The provision for old and slow inventory was £0.19 million, 1.2% at the year end (2018: £0.11 million, 0.7%). The increase in provision is prudent given the growth in inventory. During the year we have refrained from selling off some older and slower product lines to concentrate on good margin sales, comforted by the fact that in reality any such items are eventually sold through our close-out division without a loss to the business.

On acquiring Retra in 2017 the Group took on their debt of £8.7 million being £7.6 million of invoice and trade finance facilities, term loans of £0.3 million and HP contracts of £0.8 million. At 31 December 2017, after repaying some of these amounts through cash flow, £1.4 million of debt remained outstanding of which £1.1 million related to term loans and HP contracts. In 2019 a further £0.3 million of the term loans and HP contracts has been repaid leaving £0.5 million outstanding at the year end. The remaining loans and HP contracts are being repaid in line with their terms in order to avoid unnecessary early settlement charges. At the year end £1.2 million of invoice finance remained outstanding which was repaid in full in February 2020.

Working capital decreased by £0.6 million in the year. The main components were an increase in inventory of £0.8 million, an increase in trade and other receivables of £0.3 million, a decrease in cash at the year end of £1.3 million, and an increase in trade and other payables of £0.4 million.

Free cash flow remained strong at £4.1 million (2018: £4.0 million).

The Group's balance sheet remains in a very healthy position. Net assets totaled £39.8 million at 31 December 2019, a decrease of £1.2 million from 2018. The majority of the balance sheet is made up of liquid assets of inventory, trade receivables and cash. Included in the balance sheet is £7.3 million of goodwill (2018: £7.3 million) and £7.1 million of intangible fixed assets (2018: £9.5 million) arising from acquisition accounting.

The balance sheet also includes £4.7 million of right-of-use assets, £0.5 million of which has been reclassified from property, plant and equipment in the year. £4.1 million is the inclusion for the first time of the Group leasehold properties, now recognised as right-of-use assets as directed by IFRS 16. An equivalent lease liability is included of £4.3 million at the balance sheet date.

Foreign Exchange

The Group imports most of its finished goods from China paid for in US dollars, which this year strengthened on average against Sterling by 4.8% compared to 2018 (\$1.2763 v \$1.3410). This is the third year following the Brexit referendum of a strong dollar. The dollar spent most of 2019 below \$1.30 making it impossible to cover our purchasing costs at a similar dollar rate to 2018. Our average cost rate of US dollars in 2019 was \$1.2670 (2018: \$1.3457). The impact of the falling dollar rate on the cost of goods in the year was to increase them by £1.4 million.

US dollars are purchased throughout the year at spot as needed, or by taking forward purchase foreign exchange options when rates are deemed favourable, and with consideration for the budget rate set by the board for the year. Similarly, foreign exchange options are taken to sell forward our expected Euro income in the year to ensure our sales margin is protected. Around the time of the general election in 2019 when currency rates were favourable we purchased 33 foreign exchange options which were outstanding at 31 December 2019 (31 December 2018: 4). In total at 31 December 2019 options were in place for the purchase of \$15 million @ \$1.3142, and the sale of €4.4 million @ €1.1402 (31 December 2018: \$nil, and €1.1 million @ €1.1289).

The Group has a natural hedge from sales to the US which are entirely in US dollars, in 2019 these sales were \$6.32 million (2018: \$6.26 million on a like for like basis). Together with the discount mechanism from our main supplier in China, sourcing product from new factories where it makes commercial sense to do so and by buying dollars when rates are favourable, we have been able to mitigate the effect of the strong US dollar against Sterling.

Section 172(1) Statement

The directors are well aware of their duty under section 172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
 - the interests of the Company's employees;
 - the need to foster the Company's business relationships with suppliers, customers and others;
 - the impact of the Company's operations on the community and the environment;
 - the desirability of the Company maintaining a reputation for high standards of business conduct, and
 - the need to act fairly as between members of the Company
- (the "Section 172 (1) Matters").

Induction materials provided on appointment include an explanation of directors' duties, and the board is regularly reminded of the Section.172(1) Matters, including as a rolling agenda item at every main board meeting.

Further information on how the directors have had regard to the Section.172(1) Matters can be found on pages 34 to 35. This information forms part of the Strategic report and has been approved for issue by the Board on 13 May 2020.

A handwritten signature in black ink, appearing to read 'N. Rodol', written over a horizontal line.

Neil Rodol
Chief Financial Officer

13 May 2020

Risk Management

Warpaint is exposed to a variety of risks that can have financial, operational and regulatory impacts on our business performance. The board recognises that creating shareholder returns is the reward for taking and accepting risk. The effective management of risk is therefore critical to supporting the delivery of the Group's strategic objectives.

Currency / Foreign Exchange

Due to the Group's goods being manufactured overseas and its extensive export business, it both generates revenues and incurs manufacturing costs in foreign currencies. As a result, the Group is exposed to the risk that adverse exchange rate movements cause the value (relative to its reporting currency) of its revenues to decrease, or costs to increase, resulting in reduced profitability. We have improved our processes in the year within our hedging policy to ensure it remains robust while we continue to increase our international business.

Reliance on Key Suppliers

In 2019 one key supplier from China was responsible for approximately 20% (2018: 24%) of the Group's own brand ranges of colour cosmetics. If there were some catastrophic event that reduced or stopped the supply from this key supplier then the Directors are able to place orders with other existing suppliers. However, this would take several months to implement and such an event would therefore have a material adverse effect on the Group's financial position, results of operations and future prospects.

Our supply base in China was temporarily effected by the Covid-19 virus at the start of 2020 with all our suppliers closed for a month. Whilst causing some initial delays to deliveries normal operating levels were soon resumed and there was no material impact on our inventory levels. We have started to look at sourcing product from other countries if the quality, speed to market and pricing can be matched.

Product Liability

All products are manufactured in facilities approved by relevant authorities. The ingredients in each product are compliant with and meet the relevant standards required by the markets to which the products will be sold into. There is however always the risk that an end user could have an allergic or other reaction to an individual product leading to the possibility of compensation claims and potentially damaging the good reputation of the Group's brands. The directors have every colour cosmetic item independently checked by a qualified chemist for compliance with EU legislation and maintain adequate product and public liability insurance so as to ensure that any claims have little impact on the Group's profitability.

Significant Customers

The Group has one customer in Spain with over 90 stores. In 2019 this customer represented 10.7% (2018: 9.7%) of own brand and close-out revenues, we currently have an excellent working relationship with this customer. Significant goodwill in our own brands has been built up by this customer. The directors believe that, should the customer decide not to sell our brands, a large amount (if not all) of the existing business will be taken up by other retailers in Spain.

Spain has been badly affected by the Covid-19 outbreak and has been in a long period of lockdown. Our large customer in Spain remains closed awaiting permission to reopen, in the meantime they have an active online business that we continue to supply. As stated above if this customer were to fail as a consequence of Covid-19 the business will be taken up by other retailers in Spain.

Location

The Group, half of its operations and assets are at one location in Iver, with the other half based in Silsden; if a fire were to befall either of the premises occupied by the Group, half of its assets might be destroyed or damaged and – although the Group has insurance cover in place – the Group's business, financial results and prospects might be negatively affected by such an event.

Brexit

The UK Brexit referendum decision to leave the EU has led to a period of economic and political uncertainty, which is likely to continue until the exit process has concluded and possibly thereafter. Brexit may continue to dampen consumer demand and impact Group customers on the UK High Street. The Group is closely watching developments in the Brexit process and adapting its strategy as the effect of Brexit becomes clearer. In particular, we are planning to have the ability to serve our European customers from a Euro Hub and have formed in the year a wholly owned subsidiary Warpaint Cosmetics (ROI) Limited in the Republic of Ireland specifically for this purpose and to help protect us against potential UK/EU cross-border disruption. We have external expert advisers who provide us with additional support when needed.

Cyber Attacks

There is an increasing risk that cybercrime will cause business interruption, loss of key systems, loss of online sales, theft of data or damage to reputation. The Group regularly review and invest in the development and maintenance of our IT infrastructure, systems and security. We have in place disaster recovery and business continuity plans that are tested annually.

Covid-19 Pandemic

Covid-19 or another similar virus pandemic will cause major disruption to the business. Staff will be absent either through illness or from isolation measures, the business strategy will be affected, delayed and perhaps will require reassessment, capital markets and foreign exchange markets will become volatile, and the supply chain and our customer base may temporarily close down. In a pandemic situation we will follow Government guidelines and enable staff to work remotely where possible, until such time that they can return to work with new workplace safety measures in place, we will explore and examine liquidity continuity measures and implement business continuity plans. The business protects against foreign exchange and credit risk through various financial instruments such as the forward purchase of foreign exchange and credit insurance of certain customer receivable balances, particularly those deemed higher risk. Our initial response to Covid-19 was to enhance our review of risks facing the group and focus on cash spend and ensure there was sufficient cash resource to secure the long term finances of the Group.

This Strategic Report was approved by the board on 13 May 2020 and signed on its behalf.

Neil Rodol
Chief Financial Officer
13 May 2020



Board of Directors

Clive Garston (75), Non-Executive Chairman (Insider Committee (Chair), Remuneration Committee, Audit Committee)

Clive has been Non-Executive Chairman of the Group since November 2016. He has been a corporate lawyer for over 40 years specialising in corporate finance and mergers and acquisitions, and he is currently a consultant at DAC Beachcroft LLP. He has been on the boards of a number of public and private companies and has been the deputy chairman of a fully-listed company and chairman of a number of AIM companies. He has significant experience in small and medium quoted companies. He is a fellow of the Chartered Institute for Securities and Investment (CISI) and chairman of its corporate finance forum.

Sam Bazini (57), Chief Executive Officer (Insider Committee)

On leaving school at 16, Sam started work in a cosmetics warehouse, supplementing his income by selling cosmetics directly to the public at numerous London street markets. Selling directly to the public gave Sam an invaluable insight into consumer needs and in 1981 at the age of 18, using £500 he had saved he set up his own business, buying and selling close-out and end of line cosmetics and fragrance. During the course of the next ten years, Sam and Eoin's paths crossed on numerous occasions, working intermittently with each other on a joint venture basis until they formally went into business together in 1992. Together with Eoin Macleod, Sam developed the business which resulted in the formation of W7.

Eoin Macleod (57), Managing Director

Eoin's first introduction to the world of beauty was at the age of 14 through a Saturday job in an indoor market selling cosmetics and perfumes. After leaving college, Eoin decided to set up his own business selling fragrance directly to the public through London street markets as well as selling into the wholesale sector and then expanding into selling cosmetics. In 1992 he formally went into business with Sam, operating initially in the close-out cosmetics and fragrance industry. Together with Sam Bazini, Eoin developed the business which resulted in the formation of W7.

Neil Rodol (57), Chief Financial Officer (Insider Committee)

Neil joined the Group in August 2015, having previously been an adviser to the business for several years. He has overseen the introduction of new systems and procedures. He joined the board as Chief Financial Officer in November 2016. Over the last 21 years he has been involved in several corporate purchases and acquisitions. In 2006, he sold his publishing company to a quoted group and became the group licensing director; in 2014 he completed a management buyout. Neil trained as an accountant at BDO Stoy Hayward and holds an honours degree in Maths and Computer Science.

Sally Craig (59), Group Counsel & Company Secretary

Sally has been Company Secretary to Warpaint London plc since February 2017 and was appointed to the board in September 2018. She is a solicitor and has previously practised as a corporate lawyer. She has many years' experience providing company secretarial services to private and public companies in the UK including then AIM listed, Osmetech plc. She holds an honours degree in law from Manchester Metropolitan University.

Paul Hagon (56), Non-Executive Director (Remuneration Committee, Audit Committee)

Paul joined the Group as a Non-Executive Director in November 2016. Having worked in the Grocery Sector for over 30 years in both wholesaling and major branded suppliers, Paul is currently providing consultancy services for a number of retail, manufacturing and wholesale businesses to assist with strategies, change programmes and the implementation of practical business plans. Prior to this, Paul has worked in selling, marketing and business management roles with Nestle and more recently, Palmer and Harvey, where his latter role was as Group Strategy and Development Director. Paul has also served as Chairman of the Association of Convenience Stores for whom he had also been a board member for 20 years.

Keith Sadler (61), Non-Executive Director (Audit Committee (Chair), Remuneration Committee (Chair))

Keith joined the Group as a Non-Executive Director in November 2016. He is also a non-executive director of Hawkwing plc (formerly TLA Worldwide plc, a global sports management and events business and now a cash shell listed on AIM), for which he chairs the audit committee. He was formerly chief financial officer of A Spokesman Said Limited, a radio station operating under the name Love Sport and an online price comparison site and, until December 2014, chief financial officer of Dods Group PLC, a political communications business, and formerly chief operations officer and group finance director of WEARE 2020 plc. Prior to this he was chief executive and group finance director of SPG Media Group plc, a marketing services business, group finance director of The Wireless Group and two quoted regional newspaper publishers; News Communication and Media plc and Bristol United Press plc. Before this he was treasurer of Mirror Group Newspapers plc. Keith is a chartered accountant and holds an honours degree in economics from the University of Kent.

Corporate Governance Report

Chairman's Introduction

I am pleased to introduce the Corporate Governance Report for the year ended 31 December 2019. As an AIM quoted company, we recognise the importance of sound corporate governance in supporting and delivering the strategy of the Company and its subsidiaries (together the "Group"). This involves managing the Group in an efficient manner for the benefit of its shareholders and other stakeholders whilst maintaining a corporate culture which is consistent with our values. The Company adopted the QCA Corporate Governance Code ("QCA Code") on 25 September 2018. This was reviewed during the year and the Company's Corporate Governance Statement updated on 30 June 2019, is available to view on the Company's website at www.warpaintlondon.com

The board of directors is responsible for the long term success of the Company and, as such, devises the Group strategy and ensures that it is implemented. The board is determined that the Company protects and respects the interests of all stakeholders and in particular, is very focused upon creating the right environment for its employees. We want a happy workplace and we want our employees to be fully and properly rewarded and to feel that they are an integral part of the Warpaint family. A reward structure is therefore in place, which includes the grant of share options, enabling members of staff to participate in the growth of the Company, as appropriate. We want our suppliers, who are an essential part of the Company, to also feel part of the Warpaint family and we work closely with them to ensure that this is the case. Above all, the Company wishes to ensure that shareholders obtain a good return on their investment and that the Company is managed for the long-term benefit of all shareholders and other stakeholders. Appropriate Corporate Governance procedures will ensure that that is the case and reduce the risk of failure.

This section of the Report from pages 27 to 46 sets out our approach to governance and provides further information on the operation of the board and its committees and how the Group seeks to comply with the QCA Code. The instances where we do not comply are few and explanations for non-compliance are provided in the report below.

Clive Garston

Chairman

13 May 2020

Strategy

The Group has established a strategy and business model which aims to promote long term shareholder value. The Group's strategy is reviewed each year and is set out in the Strategic Report on pages 12 to 14.

The Board of Directors

The board is responsible for the long-term success of the Company. This includes formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions and, reporting to the shareholders.

The board currently comprises of the Chairman, Clive Garston two non-executive directors, Paul Hagon and Keith Sadler, and four Executive Directors, Sam Bazini, Eoin Macleod, Neil Rodol and Sally Craig who is also the Company Secretary.

There were no changes to the responsibilities of the non-executive directors during the year to 31 December 2019. However, as announced by the Company on 6 February 2020, Ward & Hagon Management Consulting LLP ("Ward & Hagon") has been appointed to provide additional strategic resource and to assist the Company in implementing its strategic growth plans. Paul Hagon, a non-executive director, is a partner of Ward & Hagon.

and as part of the Ward & Hagon appointment, he will fulfil the role of Interim Strategy and Business Development Director, a non-board role for an initial period of one year. During this period he remains a non-executive member of the board, but will not be independent. Although the UK Corporate Governance Code 2018 does not apply to the Company, under this code the Chairman would not be deemed independent and the board has therefore decided that only one of the non-executive directors, Keith Sadler, is presently independent. It is anticipated that Paul Hagon will revert to being an independent director on the expiry of the Ward & Hagon appointment. No single director is dominant in the decision-making process.

Paul Hagon will remain as a member of the Remuneration Committee, but has stepped down as Chairman. Keith Sadler will chair the Remuneration Committee in addition to chairing the Audit Committee until the expiry of the Ward & Hagon appointment.

The board considers its composition to be appropriate at this stage of the Company's development, but this remains constantly under review as the Group grows in size. At this stage in the Company's development the board does not consider that having a senior independent director is appropriate, but this will also remain under review.

The board retains a range of financial, commercial and entrepreneurial experience and there is a good balance of skills, independence, diversity and knowledge of both the Company and the sectors in which it operates including cosmetics, retailing, finance and computing, innovation, international trading, ecommerce, marketing and public markets. The non-executive directors have been appointed on merit and for their specific areas of expertise and knowledge. This enables them to bring independent judgement on issues of strategy and performance and to debate matters constructively.

Directors attend seminars and other regulatory and trade events where appropriate to ensure that their knowledge and industry sector contacts remain current.

The Articles of Association of the Company (the "Articles") require that one-third of the directors must stand for re-election by shareholders annually in rotation and that any new directors appointed during the year must stand for re-election at the annual general meeting ("AGM") immediately following their appointment.

The biographies of each of the directors, including the committees on which they serve and chair, are shown on pages 27 to 28.

Board Operation

There is a formal schedule of matters reserved to the board for its decision. These include formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions, and reporting to the shareholders.

The board aims to meet ten times each year for regular board meetings, which are scheduled prior to the commencement of each financial year. These meetings are scheduled to coincide with the announcement of the Company's annual and half yearly accounts and throughout the remainder of the year at regular monthly intervals. These are supplemented by additional meetings where required for business including informal business reviews, to review budgets and focus on strategy. Dialogue occurs regularly between directors outside of scheduled meetings.

A formal agenda is produced for each meeting and for in person board meetings which includes the review and approval of minutes recorded, matters arising, a review of material operational matters relating to Group's businesses and other special items for discussion or consideration. Board papers are circulated to board and committee members in advance to allow directors adequate time for consideration. Any specific actions

arising from such meetings are agreed by the board or relevant committee, circulated after the relevant meeting by the Company Secretary and then followed up by the Company's management.

Board Meetings

The board met 16 times during the financial year ended 31 December 2019. It is intended that the board will meet at least ten times a year to review, formulate and approve the Group's strategy, budgets, corporate actions and oversee the Group's progress towards its goals with at least one meeting on the premises of its subsidiary Retra, providing the board an opportunity to meet with its senior management and be involved with the business of the wider Group. In addition, the board held a focused, dedicated meeting on strategy on 14 January 2019 and intends to continue to schedule similar meetings annually.

The executive directors are each required to commit at least the following number of days per week to their roles: The Chief Executive Officer and Managing Director, five days; the Chief Financial Officer, four days and the General Counsel & Company Secretary, two days. The non-executive directors are required to provide such time as is required to fully and diligently perform their duties. All board members are expected to attend all meetings of the board and the committees on which they sit, wherever possible.

Audit, Remuneration and Insider Committees

The board has established the Audit Committee, Remuneration Committee and Insider Committee with formally delegated duties and responsibilities and with written terms of reference. The full terms of reference of each committee are available from the Company's website at www.warpaintlondon.com

The Reports of the Audit Committee and the Remuneration Committee can be found on pages 37 and 39 and describe the work undertaken by the Committees throughout the year. The Audit Committee comprises three non-executive directors: Keith Sadler (Chair), Clive Garston and Paul Hagon. In the year to 31 December 2019, the Remuneration Committee comprised three non-executive directors: Paul Hagon (Chair), Clive Garston and Keith Sadler. Paul Hagon has subsequently stepped down as Chairman of this committee (although he remains a member) and Keith Sadler has assumed the role of Chairman of the Remuneration Committee. The Insider Committee comprises one non-executive director and two executive directors: Clive Garston (Chair), Sam Bazini and Neil Rodol.

During the financial year ended 31 December 2019, the Audit Committee met twice, the Remuneration Committee twice and the Insider Committee did not meet during the year. From time to time separate committees are set up by the board to consider specific issues when the need arises. Due to the size of the Group, the directors have decided that issues concerning the nomination of directors will be dealt with by the board rather than a committee, but will regularly reconsider whether a Nominations Committee is required.

Board and Committee attendance for the year ended 31 December 2019

There were eleven in person board meetings and five telephone board meetings held during the year. Eoin Macleod was unable to attend two in person meetings due to business commitments. In the event that directors are unable to attend a meeting, their comments on papers submitted may be discussed in advance with the Chairman enabling their contribution to be included in the wider board discussion.

The following table shows directors' attendance at all board and committee meetings during the year.

	Board	Audit	Remuneration	Insider
Clive Garston	16/16	2/2	2/2	0/0
Sam Bazini	16/16	n/a	n/a	0/0
Eoin Macleod	14/16	n/a	n/a	n/a
Neil Rodol	16/16	n/a	n/a	0/0

Sally Craig	16/16	n/a	n/a	n/a
Paul Hagon	16/16	2/2	2/2	n/a
Keith Sadler	16/16	2/2	2/2	n/a

Roles of the Chairman, Chief Executive Officer, Managing Director, Chief Financial Officer and General Counsel & Company Secretary

The Chairman is responsible for running the business of the board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is primarily responsible for implementing and driving the Group strategy it once it has been approved, investor relations and overseeing the management of the Company through the executive team. The Managing Director is responsible for driving sales operations and productivity.

The Chief Financial Officer works closely with the Chief Executive Officer and Managing Director and is responsible for all the financial affairs of the Group. In particular, the oversight of cash flow, the provision of monthly financial information to the board, control of working capital, overseeing the audit and preparation of all Group company statutory accounts and consolidated Interim Statements along with the overall financial management of the Group and its processes. The executive officers are responsible for formulation of the Group strategy for submission to the board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets to be approved by the board of directors.

The General Counsel & Company Secretary is responsible for the oversight of legal issues and regulatory compliance along with executive share schemes, investor queries, HR matters, insurances and policy implementation. In addition, she assists the Chairman and other committee chairs in ensuring all meetings of the board and committees are informed and effective.

Board Performance and Evaluation

The Group's performance is reported monthly against headline performance and agreed budgets and reviewed by the board (as a minimum) at each monthly board meeting. The board challenges the executive directors and senior management on performance against budgets, forecasts and key business milestones. The board have adopted a set of KPI's against which the performance of the Company and therefore the board, can be measured.

The Company remains at a relatively early stage in its development as a quoted company and is yet to adopt a formal performance evaluation procedure for the board and directors individually. This will remain under review and the board will consider the implementation of performance evaluations facilitated by external advisers for the board, both individually and as a group, to ensure the efficient and productive operation of the board. As the business of the Group grows, the expertise required at management level is expanded and developed although there are no prescribed procedures for succession planning at board level.

Internal Financial Control and Risk Management

The board is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures, which include financial, compliance and risk management, are reviewed on an on-going basis. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The board has considered the need for an internal audit function, but does not consider it necessary at the current time with the current controls in place and the relative complexity of the business. The principal risks identified by the board are set out in the Strategic Report on pages 25 to 26. The assessment and management of risk is primarily the function of the executive officers, most specifically the Chief Executive Officer for strategic and business risk and the Chief Financial Officer for financial risk. The Group maintains a formal risk register and where appropriate, matters of risk are referred to the board for consideration. In addition, the Financial Controller reports to the board each month, including on key risk issues.

Conflicts of Interest

At each meeting the board considers directors' conflicts of interest. The Company's Articles provide for the board to authorise any actual or potential conflicts of interest.

External and Internal Advice

The board seeks external advice from time to time to enable it to effectively perform its duties including from its lawyers, accountants, nominated adviser and corporate broker, financial PR advisers and insurance brokers. Advice has been sought from h2glenfern Limited in connection with a review of executive compensation across the Group with a view to the recommendation and adoption of incentive arrangements (including share options) which reward success and enhance the performance of the Group. All directors have access to the advice and services of the General Counsel & Company Secretary, who is responsible for ensuring that board procedures are followed and that the Company complies with applicable rules, regulations and obligations.

Corporate Culture

The board maintains a corporate culture consistent with the Group's strategic objectives which aims to promote an ethical and responsible business. The Company places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Company through a combination of meetings and electronic communication. The Group operates an open-door policy, everyone is known by name to the senior managers and executive directors with the Chief Executive Officer and the Managing Director engaging daily with employees across the business. Communication is encouraged both on an informal basis and through regular departmental meetings, where input from colleagues is welcomed in any area. Communication channels within the business are key and the open-door policy and regular meetings aid this.

The Group has an extremely loyal work force with a low staff churn rate, promoting from within, offering staff mobility from the warehouse floor to administrative roles and managerial positions. A reward structure is in place, which includes the grant of share options, enabling members of staff to participate in the growth of the Company, as appropriate.

The corporate culture is monitored by the Chief Executive Officer who appraises the board of any issues arising. In addition, the board receives monthly reports from the Financial Controller on HR and employee matters. The culture is implemented through a number of policies on Anti-Bribery, Whistleblowing, Modern Slavery, Employment and the Environment which are described below and regularly reviewed:

- **Anti-Bribery**

The Group has in place an anti-bribery and anti-corruption policy which sets out its zero-tolerance position and provides information and guidance to those working for the Group on how to recognise and deal with bribery and corruption issues. During the period, there were no incidents for consideration.

- **Whistleblowing**

The Group's 'whistleblowing' procedures ensure that arrangements are in place to enable employees and suppliers to raise concerns about possible improprieties on a confidential basis. Any issues raised are investigated and appropriate actions are taken. Should any significant issue arise they are highlighted to the board.

- **Modern Slavery and Human Trafficking**

The Group has relationships with businesses around the world and is opposed to modern slavery and human trafficking wherever it may occur. The Group's processes and supply chains are examined and reviewed at least annually to ensure that slavery and human trafficking are prevented in its business and supply chains. Compliance with the Modern Slavery Act 2015 or equivalent anti-slavery, human

trafficking laws are mandatory in all supply contracts. The Group's statement pursuant to the Modern Slavery Act 2015 which contains further information, is available at www.warpaintcosmetics.com

- **Employees and Equal Opportunities**

The Group's employment policy is set out in the Directors' Report. At senior management level there are twelve female managers and seven male managers. Throughout the Group, the proportion of female to male employees is approximately 67% to 33%.

- **Environment**

The business consumes significant amounts of cardboard and paper and the Group utilises a regular recycling collection service. The Group's products and packaging use paper and cardboard which enables the Group, the wholesaler and end user to recycle the waste effectively. The Group is reviewing its products and packaging, with a view to reducing the amount of plastic used and utilising sustainable or recycled packaging where feasible. It aims to be a market leader in this area.

Product Testing, Manufacture and Materials

The Group does not test any of its cosmetic products on animals and animal testing of cosmetics has been banned in Europe since 2013. The board is aware that in other parts of the world there is still a requirement to test on animals. Wherever and whenever the Group comes across this requirement and are given no choice, it withdraws from sales activity in the territory concerned. The board is keen for cruelty free alternatives to animal testing to become compulsory and animal testing overall to be ceased globally.

Suppliers provide Good Manufacturing Practice Certificates for all of the factories used in the manufacture of the Group's goods. The Group's main suppliers also produce for worldwide brands, and comfort is taken from the public ethical and sustainability stance around the world of these brands. The Group's suppliers are encouraged to share with the Group the results of their BSCI and Sedex audits when they have taken place.

Heavy metals such as TBTO (preservative) and other ingredients of concern are not added to the Group's colour cosmetic products and we ensure all raw materials comply with the strict regulations applicable in the EU, USA and Canada.

Section 172 Companies Act 2006

The board always takes decisions for the long term, and collectively and individually aims to uphold the highest standards of conduct. Similarly, the board understands that the Company can only prosper over the long term if it understands and respects the views and needs of its customers, distributors, employees, suppliers and the wider community in which it operates. A firm understanding of investor needs is also vital to the Company's success along with a sustainable and environmentally responsible culture.

The directors are fully aware of their responsibilities to promote the success of the Company in accordance with Section 172 of the Companies Act 2006. An in-depth review of these responsibilities and how the Company engages with its stakeholders was considered at the Company's board meeting on 3 April 2020. The text of Section 172 of the Companies Act 2006 has subsequently been set out by the General Counsel & Company Secretary on each main board agenda by way of a reminder.

Relations with shareholders are detailed on pages 35 and 36. Relations with other key stakeholders such as employees, distributors, customers and suppliers are considered in more detail on pages 35 and 44.

The board ensures that the requirements are met, and the interests of stakeholders are considered as referred to elsewhere in this report and through a combination of the following:

- A rolling agenda of matters to be considered by the board through the year, which includes an annual strategy review meeting, where the strategic plan for the following year is developed, which is implemented and supported by a budget and a medium term (three year) financial plan.
- Standing agenda points and papers presented at each board meeting, which report on customers, employees and other colleagues, health and safety matters and investors.
- A review of certain of these topics through the Audit Committee and the Remuneration Committee agenda items referred to in this report.
- Detailed consideration is given to any of these factors where they are relevant to any major decisions taken by the board during the year.

Key board decisions taken during the year, all of which have long term implications for the ultimate success of the Company, and the Section 172 and stakeholder considerations are set out below.

Key Board Decision	Section 172 and Stakeholder Consideration
The proposal to enter into a lease of a further 9,465 sq ft of office premises adjacent to the existing units at Iver. These are anticipated to be completed by the end of August 2020.	To provide enhanced working conditions for employees, improved capability for New Product Development and customer interaction.
The acquisition by Retra of an additional warehousing site in Silsden and the movement of the US fulfilment facility to a new site in Norfolk, Virginia.	To enhance supply efficiencies, impacting suppliers and customers alike.
The decision made to appoint Ward & Hagon Management Consultancy LLP, in February 2020, to provide additional strategic resource particularly to access new retail channels with a view to growing UK market share and developing the US business.	This appointment will impact employees, customers and suppliers and maintain and enhance the Company's high standards of business conduct and drive the Group's strategic plan for the benefit of members.
The appointment of Nplus1 Singer Advisory LLP as the Company's Joint Broker in August 2019	To augment resources for all the Company's members and investor community
The engagement of h2glenferm Limited to advise on executive compensation and incentives with a view to the recommendation and adoption of incentive arrangements (including share options)	To reward success for employees and thereby enhance the value of the Company for its members
The drive to reduce the amount of plastic used in the packaging of the Company's products, utilising sustainable or recycled packaging where feasible.	To reduce the impact of the Company's operations on the environment.

Relations with Shareholders

The Company's principal means of communication with shareholders is through the Annual Report and Financial Statements, the full-year and half-year announcements and the AGM.

The board recognises that the AGM is an important opportunity to meet private shareholders. Each substantially separate issue is the subject of a separate resolution at the AGM and all shareholders have the opportunity to put questions to the board. All board directors endeavour to attend AGMs and answer questions put to them which may be relevant to their responsibilities. In addition, the directors are available

to listen informally to the views of shareholders immediately following the AGM. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are published on the Company's corporate website. In the light of the continuing public health restrictions associated with Corona virus this may not be possible at the 2020 AGM.

The board receives regular updates on the views of shareholders through briefings and reports from the executive directors, the Company's brokers and PR advisers. The Chief Executive Officer, the Managing Director and the Chief Financial Officer make presentations to institutional shareholders and participate in Investor Road Shows both following the announcement of the full-year and half-year results and, at other times throughout the year. Not every executive officer participates in every investor presentation. The Chairman will participate in these presentations in future where appropriate and is always available to speak with shareholders.

Dialogue with individual institutional shareholders also takes place in order to understand and work with these investors to seek to comply with their investor principles where practicable.

Investor queries may be addressed to the Company Secretary at investors@warpaintlondonplc.com A range of corporate information (including all Company announcements) is also available to shareholders, investors and the public on the Company's corporate website www.warpaintlondon.com

Audit Committee Report

On behalf of the board, I am pleased to present the Audit Committee Report for the year ended 31 December 2019.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported on and reviewed, and its role includes monitoring the integrity of the financial statements of the Group (including annual and interim accounts and results announcements), reviewing internal control and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors, reviewing findings of an audit with the auditors, meeting regularly with the auditors and advising on the appointment of external auditors.

During the year, the Committee consisted of three non-executive directors: me (as Chairman), Clive Garston and Paul Hagon. The Audit Committee is convened as required and met two times during the year ended 31 December 2019 to discharge its responsibilities *inter alia* in connection with the Group's Financial Statements for the year ended 31 December 2018 and the Interim Financial Statements for the six months ended 30 June 2019. A further planning meeting took place with the external auditor BDO LLP during the year. The Chief Financial Officer and the external auditor normally attend Committee meetings. The Committee met with the external auditor without management present during the year.

The board is satisfied that I, as Chairman of the Committee, have recent and relevant financial experience. I am a Chartered Accountant and, over the past 25 years have served on the board of a number of public limited companies in finance roles including as Chief Financial Officer, Group Finance Director and Treasurer.

Whilst the board as a whole has a duty to act in the best interests of the Company, the Committee has a particular role, acting independently of management, to ensure that the interests of shareholders are properly protected in relation to financial reporting and the effectiveness of the Group's systems of financial internal controls.

The key responsibilities of the Committee are to:

- Monitor the integrity of the Group's financial statements and other statements and announcements relating to its financial performance, reviewing and challenging the methodology and assumptions used where necessary;
- Consider the Group's accounting policies and practices along with its application of accounting standards and significant judgements;
- Review the effectiveness of the Group's system of internal controls, including financial reporting and controls and risk management systems;
- Review the adequacy and security of the Group's procedures and controls for whistleblowing; the detection of fraud and the prevention of bribery;
- Consider and make recommendations to the board on the appointment, reappointment, removal or resignation and remuneration of the external auditor; and
- Oversee the relationship with the Group's external auditor including consideration of the objectivity and independence of the external audit process.

The full terms of reference for the Committee can be found on the Company's website at www.warpaintlondonplc.com

External auditor

BDO LLP was appointed by the board as the Company's external auditor on 21 May 2019 for the 2019 reporting period and it is their intention to put them forward at the AGM to stand as auditors for the next financial period. There are no contractual obligations that restrict the Committee's choice of external auditor.

The Group paid £151,200 to BDO for audit services in 2019, relating to the statutory audit of the Group and Company financial statements, the audit of Group subsidiaries, and audit-related assurance services. In addition, the Group paid £15,000 to BDO in 2019, for tax advice and interim reviews.

Committee performance and effectiveness

The Company is at a relatively early stage in its development and is yet to adopt a formal performance evaluation procedure for the board, its committees and directors individually.

Audit Committee Report

This Audit Committee Report was reviewed and approved by the board on 13 May 2020.

Keith Sadler

Audit Committee Chairman

13 May 2020

Remuneration Committee Report

On behalf of the board, I am pleased to present the Remuneration Committee Report for the year ended 31 December 2019.

The main objectives of the Remuneration Committee are to develop and implement compensation packages designed to attract and retain staff, creating opportunities for senior management and employees to participate in share option schemes and develop bonus arrangements which reward performance and incentivise employees, thus increasing shareholder value over the long term.

The Remuneration Committee has responsibility for determining, within the agreed terms of reference, the Group's policy on the remuneration packages of the Company's Chairman, and the executive directors and such other members of the senior management as it is designated to consider. The Remuneration Committee also has responsibility for determining (within the terms of the Group's policy and in consultation with the Chairman of the board and/or the Chief Executive Officer) the total individual remuneration package for each executive director and other senior managers (including bonuses, incentive payments and share options or other share awards). The remuneration of non-executive directors will be a matter for the board. No director or manager will be allowed to partake in any discussions as to their own remuneration. In exercising this role, the directors shall have regard to the recommendations put forward in the relevant QCA Guidelines.

In the year to 31 December 2019, the Remuneration Committee consisted of three non-executive directors: Paul Hagon (as Chairman), Clive Garston and Keith Sadler. The Remuneration Committee is convened not less than twice a year and otherwise as required. The Committee met two times during the year ended 31 December 2019. As reported on pages 29 and 30, following the appointment of Ward & Hagon Management Consulting LLP on 6 February 2020, Paul Hagon stepped down as Chairman of this committee and I assumed the role of Chairman of the Remuneration Committee for the duration of the Ward & Hagon appointment.

The full terms of reference for the Committee can be found on the Company's website at www.warpaintlondonplc.com

Activity during the Year

The Remuneration Committee initiated a review of executive compensation across the Group with a view to the recommendation and adoption of incentive arrangements (including share options) which reward success and enhance the performance of the Group which we are seeking to implement in 2020.

External Advice

The Remuneration Committee was assisted in meeting its responsibilities by h2glenfern Limited, who are carrying out the compensation review. In the year to 31 December 2019 h2glenfern Limited received initial fees of £10,000 for this review, with the balance of £10,000 payable by 29 February 2020. The Remuneration Committee is satisfied that the advice it receives from h2glenfern Limited is objective and independent.

Directors Remuneration Policy

The Group takes into account both Group and individual performance, market value and sector conditions in determining director and senior employee remuneration. The Group has maintained a policy of paying salaries comparable with peer companies in the sector in order to attract and retain key personnel.

Directors' Remuneration for the year ended 31 December 2019

	Salary	Pension	Benefits	Bonus	Total Remuneration 2019 £	Fair Value of Options £	Total Remuneration 2018 £
S Bazini	200,000	-	8,690	-	208,690	2,102,931	208,000
E Macleod	200,000	-	6,952	-	206,952	2,102,931	206,000
N Rodol	150,000	1,188	-	-	151,188	511,987	151,000
S Craig	50,000	1,188	-	-	51,188	8,683	30,000
C Garston	60,000	-	-	-	60,000	-	60,000
P Hagon	40,000	-	-	-	40,000	-	40,000
K Sadler	40,000	-	-	-	40,000	-	41,000

Directors' interests in share options for year ended 31 December 2019

As at 31 December 2019 the following directors held the following performance related share awards (Enterprise Management Incentive Scheme Options or LTIPs) over ordinary shares of 25p each under the Warpaint London plc Enterprise Management Incentive Scheme. For details of the share option schemes see Note 22 on Pages 94 to 96.

	Type of Share Award	Date of Grant	Number of Shares at 31 December 2019	Exercise Price	End of Performance Period	Number of Shares at 31 December 2018(or date of appointment if later)
S Bazini	LTIP	21.09.2018	1,534,986	254.5p	31 Dec 2022	1,534,986
E Macleod	LTIP	21.09.2018	1,534,986	254.5p	31 Dec 2022	1,534,986
N Rodol	EMI	29.06.2017	105,262	237.5p	29 June 2020	105,262
	LTIP	21.09.2018	306,996	254.5p	31 Dec 2022	306,996
S Craig	EMI	29.06.2017	10,000	237.5p	29 June 2020	10,000
C Garston	-	-	-	-	-	-
P Hagon	-	-	-	-	-	-
K Sadler	-	-	-	-	-	-

The directors, who held office at 31 December 2019, had the following interests in the shares of the Company:

	Number of share options held at 31 December 2018 ^(c)	Number of Ordinary Shares held at 31 December 2019	Ordinary Shares as % of issued share capital	Number of Ordinary Shares held at 31 December 2018
S Bazini ^(a)	1,534,986	15,195,208	19.80	17,695,208
E Macleod ^(b)	1,534,986	15,195,208	19.80	17,695,208
N Rodol	412,258	103,961	0.14	103,961
S Craig	10,000	-	-	-
C Garston	-	126,315	0.16	126,315
P Hagon	-	31,145	0.04	31,145
K Sadler	-	31,145	0.04	31,145

In addition to the above holdings:

(a) 4,250,000 (2018: 1,750,000) shares are held by the wife of S Bazini

(b) 4,250,000 (2018: 1,750,000) shares are held by the wife of E Macleod

(c) For details of the share option schemes see Note 22 on Pages 94 to 96.

There were no changes in the shareholdings of the directors between 31 December 2019 and the date of this report.

Service Contracts and non-executive directors' Letters of Appointment

The executive directors have rolling contracts that are terminable on 12 months' notice, in the case of Sam Bazini and Eoin Macleod (the Chief Executive Officer and the Managing Director) and 6 months' notice, in the case of Neil Rodol (Chief Financial Officer) and Sally Craig (General Counsel & Company Secretary). The Chairman and each of the non-executive directors have entered into a letter of appointment which is terminable on three months' notice.

Shareholder Approval of Directors' Remuneration Report

Shareholders are asked to approve this directors' Remuneration Report (excluding the directors' Remuneration Policy) for the year ended 31 December 2019 at the forthcoming Annual General Meeting. This resolution is advisory in nature.

Keith Sadler

Remuneration Committee Chairman

13 May 2020

Directors Report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2019. The Corporate Governance statements on pages 27 to 46 forms part of this report.

Going concern

The Company's going concern statement can be found in the Consolidated Financial Statements on pages 58 to 59.

Results and dividends

The Group's results for the year ended 31 December 2019 are set out in the Consolidated Income Statement on page 52. The board, under ordinary circumstances, would have sought to maintain its progressive dividend policy, but, in the interests of prudence given the considerable on-going uncertainty surrounding the Covid-19 pandemic, and in order to further preserve the Company's cash resources, the board has resolved to not recommend a final dividend for the year ended 31 December 2019. The Company paid an interim dividend to shareholders of 1.5p per ordinary share on 15 November 2019. In the year ended 31 December 2018 the final dividend per ordinary share was 2.9p and the interim dividend 1.5p, giving a total dividend for the year ended 31 December 2018 of 4.4p per share.

Directors

The following directors who held office during the year and to the date of authorisation of the accounts are as follows:

Non-executive Chairman

C Garston

Executive directors

S Bazini

E Macleod

N Rodol

S Craig

Non-executive directors

P Hagon

K Sadler

In accordance with the Company's Articles of Association Clive Garston and Neil Rodol will retire and stand for re-election at the forthcoming Annual General Meeting.

Likely Future developments

Details of the Group's future developments are contained in the Strategic report set out on pages 4 to 26.

Substantial shareholdings

The Group is aware of the following shareholdings of 3% or more in the share capital as at 31 December 2019:

Shareholder	Number of Shares	%
S Bazini (including connected parties)	19,445,208	25.34
E Macleod (including connected parties)	19,445,208	25.34
Schroders plc	10,941,410	14.26
Blackrock Inc	3,685,423	4.80
BI Asset Management Fondsmæglerselskab A/S	3,532,367	4.60
Canaccord Genuity Group Inc.	2,348,612	3.06

Financial instruments

The Group's financial risk management objectives and policies are discussed in Note 24 to the Consolidated Financial Statements on pages 96 to 103.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution proposing that BDO LLP be re-appointed as auditors of the Group will be put to the Annual General Meeting.

Indemnity of Directors

The Group has purchased and maintains, for all directors, insurance against any liability and the Group maintains appropriate insurance cover against legal action brought against its directors.

Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union or United Kingdom Generally Accepted Accounting Practice;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the

responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Employees

It is the Company's policy not to discriminate between employees or potential employees on any grounds. Full and fair consideration is given to the recruitment, training and promotion of disabled people and, should staff become disabled during the course of their employment, efforts are made to provide appropriate re-training.

Engagement with Key Stakeholders

The key stakeholders for the Group are customers, distributors, suppliers, employees, shareholders and the community in which we live. Whilst interactions take place at all levels of the Group, the directors are aware of the importance of the relationships with key stakeholders and feedback is utilised wherever possible to sustain these relationships in order to drive the long term success of the business. Business relationships with the following stakeholders are described below. The effect of any such engagement on key decisions in the financial year to 31 December 2019 are set out below and detailed on pages 34 to 35.

- **Customers**

Feedback with trade customers is initially directed through dedicated account managers followed by engagement with our administration teams. For end user customers feedback is garnered through the peer to peer review site Yotpo, and social media such as Facebook, Twitter, Instagram and Pinterest. The Group's customers frequently contact the Company in writing and through the website www.w7cosmetics.co.uk where they are also able to leave comments. We endeavour to respond to all customers who contact us. Trends in the cosmetics business are dynamic and swift reaction to feedback is vital in introducing new products and updating our product range.

- **Distributors**

We seek to strengthen our relationships with our distributors to garner feedback and provide support with regular meetings, attendance at trade shows and maintaining close contact with them through our sales representatives. Our Distributors provide feedback on product suitability including in regions of the world such as the Middle East where there may be cultural sensitivities in the product packaging and branding. Different regions may also call for particular colour mixes and shades and such feedback enables us to optimise and tailor products in these regions. The aim is to align the interests of the distributor with those of the Group.

- **Suppliers**

Suppliers are visited at least annually and regular contact maintained at other times through trade shows, meetings and other close communications. The Group's principal suppliers are made to feel part of the organisation with an open and honest dialogue encouraged so that feedback can be communicated and a rapid response provided. Following the acquisition of Retra, the Group has retained an office in Hong Kong enabling more frequent visits and enhanced supplier contact. A strong relationship with the Group's suppliers is vital to the long term success of the Company.

- **Employees**

The Company places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Company through a combination of meetings and electronic communication. The Group operates an open-door policy, everyone is known by name to the senior managers and executive directors with the Chief Executive Officer and Managing Director engaging daily with employees across the business. Communication is encouraged both on an informal basis and through regular departmental meetings, where input from colleagues is welcomed in any area. Communication channels within the business are key and the open-door policy and regular meetings aid this.

Feedback from employees led to the introduction of flexible working and pay surrounding the daily breaks at the warehouse at Iver, and input from employees guides and influences the seasonal opening times. As part of the consultation in 2019, employees were again given the opportunity to purchase additional holiday. Where practicable, consideration is given to flexible working.

- **Shareholders**

The means of engagement with shareholders is detailed on pages 35 to 36. Throughout the financial year to 31 December 2019, there has been ongoing engagement with shareholders by the means described.

- **Community and Environment**

Wherever possible we employ staff from the local area and encourage the use of car sharing and public transport to reduce the impact on local roads. We manage the times of our incoming and outgoing deliveries in order to limit any disturbance to residents in the local area. As a rule, we use local trade's people for goods and services creating employment and income within the area. We often support local charities, including South Bucks Hospice and provide donations of our products for local school fairs and fetes, these requests coming via our local suppliers. In 2019, members of the Retra New Product Development team visited local schools to talk to pupils about innovation and design as part of their business learning challenges.

In terms of the environment, the business consumes significant amounts of cardboard and paper and the Group utilises a regular local recycling collection service. The Group's products and packaging use paper and cardboard which enables the Group, the wholesaler and end user to recycle the waste effectively. In 2019, the Group has initiated a drive to reduce the amount of plastic used in the packaging of the Company's products, utilising sustainable or recycled packaging where feasible.

Post balance sheet events

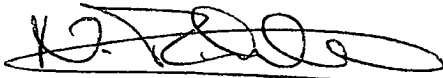
The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak has been separately considered as part of the directors' consideration of the going concern basis of preparation. Thus far, the Group has experienced a material impact in trading performance due to Covid-19, with many but not all customers closed throughout the UK and overseas.

Whilst it is difficult to predict the overall outcome and impact of Covid-19, the directors have performed an initial assessment of the impact on the carrying value of intangible assets, recoverability of trade receivables and inventory. Although there is likely to be a reduced level of trading activity in the future, the amortisation which will be charged on the intangible assets is anticipated to be sufficient to reduce the carrying value to a level whereby further impairment is not required. For trade receivables, although certain customers are experiencing cash flow pressure, at this stage we do not expect any material bad debt charges. In relation to inventory, the directors are confident that although sales orders have been delayed, delivery of stock to customers will still occur at some point and no additional provisions are anticipated due to the long shelf life of our products and that they sell all year round. Should any adjustments arise due to the impact of Covid-19, they will be non-adjusting post balance sheet events.

Statement of disclosure to the auditors

So far as the directors are aware:

- (a) there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.



On behalf of the board

Neil Rodol
Chief Financial Officer
13 May 2020

WARPAINT LONDON PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARPAINT LONDON PLC

Opinion

We have audited the financial statements of Warpaint London Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company statements of financial position, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard in the United Kingdom and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following areas were identified by us as the key audit matters relevant to our audit of the financial statements:

WARPAINT LONDON PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARPAINT LONDON PLC

Impairment of intangible assets and goodwill

See accounting policy and critical estimates and judgements section of note 1 as well as notes 9 and 10 to the financial statements.

Description of matter and risk – The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cashflows, which form the basis of the Group's value in use calculation and assessment of the carrying value of goodwill and intangible asset values.

We have determined as part of our risk assessment that the value in use calculation used in the assessment of carrying value of goodwill and intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements disclose the sensitivities estimated by the Group.

How we addressed the matter in our audit – We considered whether the revenue, and where relevant associated costs, used in the value in use calculations was reasonable in light of historic performance and industry projections. This included using our own sector experience in challenging the key assumptions made and performing sensitivity analysis on these assumptions. These areas included the projected economic growth and cost-inflation, margin achievable and known or probably changes in the business environment.

We used our own valuation specialists to challenge the value in use and the fair value less cost to sell model. We assessed the competence, independence and expertise of the third party expert used by management in formulating the value in use model. We also challenged management and their third party experts regarding the assumptions made in the model including the cash flow forecast, weighted average cost of capital and discount rate used. We benchmarked the key assumptions applied against a variety of similar businesses and considered whether these fell within our acceptable ranges. We assessed whether the selected price index were reasonable by comparing them to other data sources, including price index from a number of similar businesses.

Key observations - no issues arose from our work that suggested goodwill and intangible assets are materially misstated.

Carrying value of inventory

See accounting policy and critical estimates and judgments section of note 1 as well as note 13 to the financial statements.

Description of matter – The group has significant levels of inventory and estimates are made in the valuation of slow moving and obsolete inventories, some of which have a limited shelf life. There is uncertainty over changes in consumer preferences and spending patterns, which are primarily driven by wider trends in the fashion industry as well as seasonality, which could impact the saleability of inventory.

There is a recoverability risk associated with new product launches and judgement required in forecasting demand which can lead to obsolete inventory. Given the level of judgement and estimation involved, the carrying value of inventory is considered to be a key audit matter.

How we addressed the matter in our audit - Our procedures included assessing the holding value of inventory as being appropriate at the lower of cost of net realisable value. This was done through testing a sample of items to their unit cost and then to the average sale price in the period leading up to the year end. Where there were indicators of negative margin or at cost sales, we ensured that these balances were recorded appropriately in the inventory provision balance. In addition, we considered the principles and appropriateness of the Group's inventory provisioning policies based on our understanding of the business and the accuracy of previous provisioning estimates. We considered the inventory write off figure during the year and compared this to the Group's expected recoveries brought forward and to the position at the year end date. Further, we tested the unprovided inventory balance by reviewing sales volumes and values after the balance sheet date by testing a sample of items.

WARPAINT LONDON PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARPAINT LONDON PLC

Key observations – no issues arose from our work that suggested inventory is materially misstated.

Going concern

See basis of preparation in note 1

The issue – The unprecedented impact of COVID-19 on the business and the wider world economies has resulted in uncertainties on ability of companies to continue as operating as going concern and raised additional audit risks.

The directors have considered the impact of the recent COVID-19 outbreak as part of the Group's going concern analysis and have modelled a range of reasonably possible outcomes as a result of the COVID-19 pandemic, including an extreme stress test scenario.

How we addressed the matter in our audit – we reviewed management's modelled scenarios including the stress test scenario which was based on an extended lockdown and therefore, minimal trading for a period of 12 months. We assessed the mitigating options that management had at their disposal to manage and conserve cash and challenged management on the key assumptions included and confirmed management's mitigating actions are within their control.

We considered the potential impact on the balance sheet, specifically around inventory and receivables and assessed management's judgement around the recoverability of these balances. This included reviewing post year end, post lockdown sales values, order book values, cash receipts post year end and the adequacy and sufficiency of credit insurance.

We reviewed management's disclosures in relation to the COVID-19 pandemic and its potential impact and concluded that these are consistent with management's stress test scenario and the Board's view of the current market conditions.

Key observations – these are set out in the conclusions relating to going concern section of our audit report.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality which, together with qualitative considerations, help us to determine the nature, timing and extent of our audit procedures on the individual financial statement areas and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £248,000 (2018: £405,000) which is based on profit before interest, tax, amortisation, impairment and exceptional items. This is consistent with the prior year.

We used profit before interest, tax, amortisation, impairment and exceptional items as a benchmark given the importance of underlying trading profit as a measure for users of the financial statements in assessing the performance of the Group.

Each component of the Group was audited to a lower level of materiality. Component materiality ranged from £100,000 to £223,000 (2018: £100,000 to £330,000).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £186,000 (2018: £303,750) which represents 75% (2018: 75%) of the above materiality levels.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £12,400 (2018: £20,250). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

WARPAINT LONDON PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARPAINT LONDON PLC

Materiality of the company was set at £100,000 (2018: £105,000) with performance materiality set at £75,000 (2018: £78,750) based on 75% (2018: 75%) of materiality. The level of materiality was based on 40% of group materiality (2018: 26% of group materiality)

An overview of the scope of our audit

The group consists of four trading subgroups, all of which are run from the UK except for Marvin Leeds Marketing Services Inc. which is based on the United States of America. In establishing the overall approach to the group audit, we completed full scope audits on the underlying subgroups and the parent company, except for Marvin Leeds Marketing Services Inc, on which we tested specific account balances. Marvin Leeds Marketing Services Inc is not deemed to be a significant component and so our work was tailored to focus on the significant risk areas. All audit work was carried out by BDO LLP

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

WARPAINT LONDON PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARPAINT LONDON PLC

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out in the Directors' report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark RA Edwards (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

13th May 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

WARPAINT LONDON PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Year ended 31 December	
		2019 £'000	2018 £'000
Revenue	1,2	49,282	48,477
Cost of sales		(32,780)	(31,263)
Gross profit		16,502	17,214
Administrative expenses	3,4	(14,355)	(12,330)
Analysed as:			
Adjusted profit from operations ¹		5,580	8,419
Amortisation	3,10	(2,439)	(2,272)
Impairment losses	3,9,10	-	(812)
Exceptional items	3	(178)	(335)
Share based payment		(816)	(116)
Profit from operations	3	2,147	4,884
Finance expense	5	(370)	(150)
Profit before tax		1,777	4,734
Tax expense	6	(409)	(1,159)
Profit for the year attributable to equity holders of the parent company		1,368	3,575
Other comprehensive income:			
<i>Item that will or maybe reclassified to profit or loss:</i>			
Exchange (loss)/gain on translation of foreign subsidiary		(12)	48
Total comprehensive income attributable to equity holders of the parent company		1,356	3,623
Basic earnings per share (pence)	28	1.78	4.66
Diluted earnings per share (pence)	28	1.78	4.66

Note 1 – Adjusted profit from operations is calculated as earnings before interest, taxation, amortisation, impairment costs, share based payments and exceptional items.

The notes on pages 57 to 107 form part of these financial statements.

WARPAINT LONDON PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019

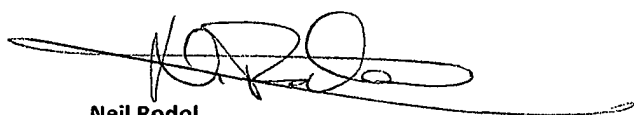
		Year ended 31 December	
		2019	2018
		£'000	(as restated) £'000
	Note		
Non-current assets			
Goodwill	9	7,274	7,274
Intangibles	10	7,082	9,486
Property, plant and equipment	11	684	1,358
Right-of-use assets	12	4,685	-
Deferred tax assets	18	374	241
Total non-current assets		20,099	18,359
Current assets			
Inventories	13	16,194	15,362
Trade and other receivables	14	12,624	12,297
Cash and cash equivalents	15	2,731	4,041
Derivatives financial Instruments	24	39	-
Total current assets		31,588	31,700
Total assets		51,687	50,059
Current liabilities			
Trade and other payables	16	(3,933)	(3,489)
Borrowings and lease liabilities	17	(2,206)	(2,169)
Corporation tax liability		(548)	(1,034)
Total current liabilities		(6,687)	(6,692)
Non-current liabilities			
Borrowings and lease liabilities	17	(3,863)	(553)
Deferred tax liability	18	(1,324)	(1,796)
Total non-current liabilities		(5,187)	(2,349)
Total liabilities		(11,874)	(9,041)
NET ASSETS		39,813	41,018

The notes on pages 57 to 107 form part of these financial statements.

WARPAINT LONDON PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
		£'000	£'000
Equities			
Share capital	20	19,187	19,187
Share premium		19,359	19,359
Merger reserve		(16,100)	(16,100)
Foreign exchange reserve		36	48
Share option reserves	21	977	161
Retained earnings		16,354	18,363
TOTAL EQUITY		39,813	41,018

The financial statements of Warpaint London PLC were approved and authorised for issue by the Board of Directors and were signed on its behalf by:



Neil Rodol
Chief Financial Officer

Date: 13TH MAY 2020

The notes on pages 57 to 107 form part of these financial statements.

WARPAINT LONDON PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital	Share Premium	Merger Reserve	Foreign exchange reserve	Share option reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	19,187	19,359	(16,100)	-	45	17,933	40,424
<i>Comprehensive Income for the year</i>							
On translation of foreign subsidiary	-	-	-	48	-	-	48
Profit for the year	-	-	-	-	-	3,575	3,575
Total comprehensive income for the year	-	-	-	48	-	3,575	3,623
<i>Transactions with owners</i>							
Share based payment charge	-	-	-	-	116	-	116
Dividends paid	-	-	-	-	-	(3,145)	(3,145)
Total transactions with owners	-	-	-	-	116	(3,145)	(3,029)
As at 31 December 2018	19,187	19,359	(16,100)	48	161	18,363	41,018
<i>Comprehensive Income for the year</i>							
On translation of foreign subsidiary	-	-	-	(12)	-	-	(12)
Profit for the year	-	-	-	-	-	1,368	1,368
Total comprehensive income for the year	-	-	-	(12)	-	1,368	1,356
<i>Transactions with owners</i>							
Share based payment charge	-	-	-	-	816	-	816
Dividends paid	-	-	-	-	-	(3,377)	(3,377)
Total transactions with owners	-	-	-	-	816	(3,377)	(2,561)
As at 31 December 2019	19,187	19,359	(16,100)	36	977	16,354	39,813

The notes on pages 57 to 107 form part of these financial statements.

WARPAINT LONDON PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

		Year ended 31 December	
	Note	2019 £'000	2018 £'000
Operating activities			
Profit before tax		1,777	4,734
Interest paid	5	370	150
Impairment of goodwill	9	-	812
Amortisation of intangible assets	10	2,439	2,272
Depreciation of property, plant and equipment	11/12	1,194	529
Loss on disposal of property, plant and equipment		39	7
Share based payment		816	116
(Increase)/decrease in trade and other receivables		(327)	1,574
Increase in inventories		(832)	(2,524)
Increase/(decrease) in trade and other payables		444	(1,753)
Fair value gain on derivative financial instruments		(39)	-
Foreign exchange translation differences		(13)	48
Cash generated from operations		5,868	5,965
Tax paid		(1,499)	(1,565)
Net cash flows from operating activities		4,369	4,400
Investing activities			
Purchase of intangible assets	10	(35)	(48)
Purchase of property, plant and equipment	11	(284)	(392)
Acquisition of business, net of bank balances acquired	8	-	(1,319)
Net cash used in by investing activities		(319)	(1,759)
Financing activities			
Repayment of borrowings		(83)	(261)
Lease payments		(811)	-
(Decrease)/increase in stock and invoice finance facilities		(719)	1,587
Interest paid		(370)	(150)
Dividends	19	(3,377)	(3,145)
Net cash used in financing activities		(5,360)	(1,969)
Net (decrease)/increase in cash and cash equivalents		(1,310)	672
Cash and cash equivalents at beginning of period		4,041	3,369
Cash and cash equivalents at end of period		2,731	4,041
Cash and cash equivalents consist:			
Cash and cash equivalents	15	2,731	4,041
		2,731	4,041

The notes on pages 57 to 107 form part of these financial statements.

WARPAINT LONDON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. Significant accounting policies

Basis of preparation

The financial statements of Warpaint London PLC (the "Company" or "Warpaint") and its subsidiaries (together the "Group") for the year ended 31 December 2019 were authorised for issue by the board of directors on 13th May 2020 and the statement of financial position was signed on the board's behalf by Neil Rodol.

Warpaint London PLC is a public limited Company incorporated and registered in England and Wales. Its registered office is Units B&C, Orbital Forty-Six, The Ridgeway Trading Estate, Iver, Buckinghamshire, SLO 9HW.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest thousand (£'000) except where otherwise indicated.

The annual financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities which are carried at fair value or amortised cost as appropriate.

The preparation of financial statements in conformity with International Financial Reporting Standards adopted by the European Union requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The principal accounting policies adopted are set out below.

Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. All subsidiaries have a reporting date of December.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

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1. Significant accounting policies (continued)

On consolidation, the results of overseas operations are translated into pound sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognised profit or loss in Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Going concern

The Group made a statutory profit of £1.4 million in the year to 31 December 2019 (2018: £3.6 million and had net current assets of £24.9 million at 31 December 2019 (2018: £25.0 million). The Group occasionally makes use in its Retra subsidiary of a £10 million facility that can be used for confidential invoice discounting and stock finance, the facility renews each year at the end of June, and contains certain covenants, including a minimum EBITDA for Retra to be tested on a cumulative quarterly basis. As at 31 December 2019, £1.2 million of the £10 million facility was utilised and fully repaid by the end of February 2020. At 30 April 2020, the Company had cash of £3.7 million, hire purchase and term debt of £0.5 million, and had made use of £0.3 million of its Bank trade finance facility

The Directors have prepared forecasts covering the period to December 2021, built from the detailed Board approved budget for 2020. The forecasts include a number of assumptions in relation to sales volume and margin improvements, and cost savings. Whilst the Group's trading and cash flow forecasts have been prepared using current trading assumptions, the operating environment presents a number of challenges which could negatively impact the actual performance achieved. Excluding the potential impact of COVID-19 which is considered below, these risks include, but are not limited to, achieving forecast levels of sales and order intake, the impact on customer confidence as a result of general economic conditions and Brexit, achieving forecast margin improvements and the director's ability to implement cost saving initiatives in areas of discretionary spend where required.

The Group's cash flow forecasts and projections, taking account of reasonable and possible changes in trading performance excluding the potential impact of COVID-19 (which is considered below), offset by mitigating actions within the control of management including reductions in areas of discretionary spend, show that the Group will be able to operate comfortably through to the end of December 2021, and in Retra within the level of its facility and associated covenants.

The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been separately considered as part of the directors' consideration of the going concern basis of preparation. Thus far, the Group has experienced a material impact in trading performance due to COVID-19, with many but not all

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1. Significant accounting policies (continued)

customers closed throughout the UK and overseas. In the downside scenario analysis performed, the directors have considered the reasonably plausible impact of the COVID-19 outbreak on the Group's trading and cash flow forecasts.

In preparing this analysis, a number of scenarios were modelled ranging from a 3 month shut down of the business, and for the next twelve months as a worst case scenario. In each scenario, mitigating actions within the control of management, including reductions in areas of discretionary spend, have been modelled, as well as the furlough of the majority of the staff and deferment of rents. It is difficult to predict the overall outcome and impact of COVID-19 at this stage and the duration of disruption to sales activity could be longer than anticipated, although the directors believe the worst case scenario for the next twelve months to be extreme. Under each of the scenarios modelled, the Group has sufficient cash to meet its liabilities as they fall due and consequently, the directors believe that the Group has sufficient financial strength to withstand the current disruption to its activities.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Revenue Recognition

The Group has adopted IFRS 15 from 1 January 2018. The standard provides a single comprehensive model for revenue recognition.

Performance obligations and timing of revenue recognition

The Group's revenue is derived from selling goods with revenue recognised at a point in time when control of the goods has transferred to the customer. This is generally when the goods are delivered to the customer. However, for export sales, control might also be transferred when delivered either to the port of departure or port of arrival, depending on the specific terms of the contract with a customer. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the group no longer has physical possession, usually will have a present right to payment (as a single payment on delivery) and retains none of the significant risks and rewards of the goods in question.

UK sales are recognised and invoiced to the customer once the goods have been delivered to the customer. Overseas sales are recognised and invoiced to the customer once the goods have been delivered to the customer or collected by the customer from the Group's warehouse according to the terms of sale.

Where the Group has entered into distributor arrangements the satisfaction of performance obligation and transfer of control to the distributor is from the date of dispatch from either the Group's overseas supplier or from the Company's UK warehouse. Revenue is therefore recognised on the date of dispatch.

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1. Significant accounting policies (continued)

Under IFRS 15, volume rebates and early settlement discounts represent variable consideration and is estimated and recognised as a reduction to revenue as performance obligations are satisfied. Management recognises revenue based on the amount of estimated rebate to the extent that revenue is highly probably of not reversing. Management monitors this estimate at each reporting date and adjusts it as necessary.

Determining the transaction price

Most of the group's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices. Exceptions are as follows:

- Some contracts provide customers with a limited right of return. These relate predominantly, but not exclusively, to online sales direct to consumers and retailers. Historical experience enables the group to estimate reliably the value of goods that will be returned and restrict the amount of revenue that is recognised such that it is highly probable that there will not be a reversal of previously recognised revenue when goods are returned.
- Variable consideration relating to volume rebates has been considered in estimating revenue in order that it is highly probable that there will not be a future reversal in the amount of revenue recognised when the amount of volume rebates has been determined.

Allocating amounts to performance obligations

For most contracts, there is a fixed unit price for each product sold, with reductions given for bulk orders placed at a specific time. Therefore, there is no judgement involved in allocating the contract price to each unit ordered in such contracts (it is the total contract price divided by the number of units ordered). Where a customer orders more than one product line, the Group is able to determine the split of the total contract price between each product line by reference to each product's standalone selling prices (all product lines are capable of being, and are, sold separately).

Practical Exemptions

The group has taken advantage of the practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less; and
- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less.

Expenditure and provisions

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists relating to a past event and where the amount of the obligation can be reliably estimated.

Retirement Benefits: Defined contribution schemes

Contributions to defined contribution schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

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1. Significant accounting policies (continued)

Exceptional items

Exceptional items which have been disclosed separately on the face of the income statement in order to summarise the underlying results. Exceptional items relate to legal and professional fees incurred on the acquisition of Marvin Leeds Marketing Services Inc and Retra Holdings Limited in prior periods. Neither

'underlying profit or loss' nor 'exceptional items' are defined by IFRS however the directors believe that the disclosures presented in this manner provide clear presentation of the financial performance of the Group.

Intangible assets

Patents

Patents are used by the Group in order to generate future economic value through normal business operations. Patents are acquired separately and carried at cost less amortisation and impairment. The underlying assets are amortised over the period from which the Group expects to benefit, which is typically between five to ten years.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Amortisation is provided on Licences and Website costs so as to write off the carrying value over the expected useful economic life of five years.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Amortisation is provided on customer lists and brands so as to write off the carrying value over the expected useful economic life of five years. Other details of the acquisition are detailed in note 8.

Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed, and equity instruments issued, plus the amount of any non-controlling interests in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and

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1. Significant accounting policies (continued)

contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Impairment of non-financial assets (excluding inventories and deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from a business combination that gives rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

Depreciation is provided on all items of property, plant and equipment so as to write off their carrying value over the expected useful economic lives. It is provided at the following rates:

Plant and machinery	-	25% reducing balance and 20% straight line
Fixtures and fittings	-	25% reducing balance and 20% straight line
Computer equipment	-	25% reducing balance and 33.33% straight line
Motor vehicles	-	20% straight line

Right-of-Use Assets

In the previous period, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as "finance leases" under IAS 17 "Leases". The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 12.

Right-of-use assets are measured at cost, which is made up of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs

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1. Significant accounting policies (continued)

incurred and an estimate of costs to dismantle and remove the asset at the end of the lease, less any lease incentives received.

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group also assesses the right-of-use asset for impairment when such indicators exist.

The right-of-use assets are included in a separate line within non-current assets on the Consolidated Balance Sheet

Financial assets

The Group has adopted IFRS 9 from 1 January 2018. The standard introduced new classification and measurement models for financial assets.

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value (see "Financial liabilities" section for out-of-the-money derivatives classified as liabilities). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the finance income or expense line. Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Amortised cost

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available and has been adopted by the Group. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account

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1. Significant accounting policies (continued)

with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's financial assets measured at amortised cost comprise trade and other receivables, and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises out-of-the-money derivatives where the time value does not offset the negative intrinsic value (see "Financial assets" for in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value). They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

Other financial liabilities

Other financial liabilities include the following items:

- Bank loans which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost ensuring the interest element of the borrowing is expensed over the repayment period at a constant rate.
- Trade payables, other borrowings and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, through the use of foreign exchange rate forward contracts.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging

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1. Significant accounting policies (continued)

instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019. The following policies apply subsequent to the date of initial application, 1 January 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

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1. Significant accounting policies (continued)

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the group to use an identified asset and require services to be provided to the group by the lessor, the group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

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1. Significant accounting policies (continued)

Nature of leasing activities (in the capacity as lessee)

The group leases a number of property, plant and equipment in the jurisdictions from which it operates with a fixed periodic rent over the lease term. The group has a total of 6 property leases, 1 plant and machinery, and 3 equipment leases.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the combined statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different company entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

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1. Significant accounting policies (continued)

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of the cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Chief Executive Officers and the Chief Financial Officer.

The Board considers that the Group's project activity constitutes two operating and two reporting segments, as defined under IFRS 8. Management reviews the performance of the Group by reference to total results against budget.

The total profit measures are operating profit and profit for the year, both disclosed on the face of the combined income statement. No differences exist between the basis of preparation of the performance measures used by management and the figures in the Group financial information.

Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares and shares in employee benefit trusts, determined in accordance with the provisions of IAS 33 earnings per Share. Diluted earnings per share is calculated by dividing earnings attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the year adjusted for the potentially dilutive ordinary shares.

Share Capital

The Group's ordinary shares are classified as equity instruments.

Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

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1. Significant accounting policies (continued)

Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive income is charged with the fair value of goods and services received.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the annual general meeting.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2019

New standards impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies are:

IFRS 16 Leases

Details of the impact this standard has had is given below. Other new and amended standards and Interpretations issued by IASB and adopted by the EU that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

b) At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB and adopted by the EU but are not yet effective and have not been adopted early by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

		Effect annual periods beginning before or after
IFRS 9	Financial instruments – amendments regarding pre-replacement issues into the context of LIBOR reform.	1st January 2020
IAS 8	Accounting policies – changes in in accounting estimates and errors. Amendments regarding depreciation at undervaluation.	1st January 2020

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1. Significant accounting policies (continued)

Effect of changes in accounting policies

Initial adoption of IFRS 16 "Leases"

Effective 1 January 2019, IFRS 16 "Leases" replaced IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement Contains a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single lease accounting model.

IFRS 16 has been applied using the modified retrospective approach requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing activities acting as a lessor.

Transition Method and Practical Expedients Utilised

On adoption of IFRS 16 the Group has recognised lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present values of the remaining lease payments, discounted using the incremental borrowing rates at 1 January 2019.

For leases previously classified as finance leases, the right-of-use assets and lease liabilities are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The Group has used the following practical expedients (modified retrospective approach) when applying IFRS 16 to leases previously classified as operating leases:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;
- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

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FOR THE YEAR ENDED 31 DECEMBER 2019

1. Significant accounting policies (continued)

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities as follows:

Classification under IAS 17	Right-of-use assets	Lease liabilities
All other operating leases	Leasehold property: Right-of-use assets are measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments that existed at the date of transition, including unamortised lease incentives. All other: the carrying value that would have resulted from IFRS 16 being applied from the commencement date of the leases, subject to the practical expedients noted above.	Measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The incremental borrowing rate applied differs depending on jurisdiction of the leases, term, currency and economic environment ranging from 1.98% to 2.95%.
Finance leases	Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted).	

Lease liabilities

The following is a reconciliation of total operating lease commitments disclosed at 31 December 2018 with the lease liabilities recognised at 1 January 2019:

	£'000
Total operating lease commitments disclosed under IAS 17 at 1 January 2019	5,845
Contracts reassessed as non-lease contracts	-
Undiscounted lease payments	5,845
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(885)
Operating lease liabilities after discounting	4,960
Finance lease liabilities recognised under IAS 17 at 1 January 2019	591
Total lease liabilities recognised under IFRS 16 at 1 January 2019	5,551
Represented by:	
Current lease liabilities	865
Non – current lease liabilities	4,686
	5,551

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1. Significant accounting policies (continued)

Adjustments Recognised on the Balance Sheet on 1 January 2019

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 31 December 2018:

		Carrying amount at 31 December 2018 £'000	IFRS 16 Reclassification £'000	IFRS 16 Initial adoption £'000	IFRS 16 amount at 1 January 2019 £'000
Property, plant and equipment	11	1,358	(591)	-	767
Right of use assets	12		591	4,960	5,551
Lease liabilities	17	(591)	-	(4,960)	(5,551)
Total		767	-	-	767

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities of £4,960 thousand.

Assets under finance lease arrangements of £591 thousand previously presented within property, plant and equipment were reclassified to right-of-use assets.

There was no net effect on retained earnings at 1 January 2019.

IFRS 16 requires entities to make certain judgements and estimations. Management has exercised judgement around the use of extension and break options for leases. Where the Group has the option to extend or terminate a lease early, management has used its judgement to determine whether or not the option is reasonably certain to be exercised. Management has considered all facts and circumstances including past practice and current and future business strategy and any costs that could be incurred on use of the option in exercising its judgement. Post transition the Group would use optional exemptions for low value items and short-term leases.

Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

WARPAINT LONDON PLC
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1. Significant accounting policies (continued)

Judgements and accounting estimates and assumptions

a) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of the cost and net realisable value. There is judgement involved in assessing the level of inventory provision required in respect of slow-moving inventory.

The Group makes a 50% provision for perishable items of stock that are greater than two years old. Should the Group increase the provision to 100% of perishable items that are greater than two years old, this would decrease profit by £209,395. The Group does not provide any provision on its non-perishable goods that are greater than two years old on the basis that the products have long shelf life. Should the Group increase the provision to 100% of non-perishable items that are greater than two years old, this would decrease profit by £363,282.

b) Impairment of goodwill

The assessment of the recoverable amount of goodwill allocated to Retra Holdings Limited and Leeds Marketing Services, Inc., as detailed in note 9, was based on a value in use calculation which involved judgement in assessing the projected future cashflows arising from the CGU and a suitable discount rate to be used to measure the future cash flows to present value. A one per cent increase in the pre-tax discount rate for Retra Holdings Limited from 15.4% to 16.4% would reduce the recoverable amount by approximately £1.73 million and will still not result to any impairment, while a one percent increase in the pre-tax discount rate for Leeds Marketing Services, Inc. from 18.8% to 19.8% would reduce the recoverable amount by approximately £0.01 million and will still not result to any impairment.

The requirement, in accordance with IAS 10 Events after the Reporting Period, is to account for the significant changes in business and economic conditions as non-adjusting events because the significant development and spread of the Coronavirus did not take place until January 2020. As at 31 December 2019, only certain events and associated actions had taken place such as the Wuhan Municipal Health Committee's issue on 30 December 2019 of an urgent notice in respect of the virus. However, although cases were reported to the World Health Organisation on 31 December 2019, its announcement of Coronavirus as a global health emergency was not made until 31 January 2020 (following which national governments took action). In addition, significant measures taken by the Chinese government and by private sector organisations did not take place until early 2020.

On this basis, it is expected that forecasts, projections and associated assumptions used for the purposes of impairment testing would reflect either little or no change as a result of the Coronavirus Outbreak, if the impact of COVID-19 was considered in the judgements and estimates made in preparing the projected future cash flows, this may have had resulted to an impairment.

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2. Segmental information

For management purposes, the Group is organised into two operating segments; Branded and Close-out. The segment 'Branded' relates to the sale of own branded products whereas 'close-out' relates to the purchase of third-party stock which is then repackaged for sale. These segments are the basis on which the Group reports internally to the Board.

Year ended 31 December	2019	2019	2019	2018	2018	2018
	Own Brand	Close-out	Total	Own Brand	Close-out	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	41,619	7,663	49,282	40,875	7,602	48,477
Cost of sales	(27,086)	(5,694)	(32,780)	(26,188)	(5,075)	(31,263)
Gross profit	14,533	1,969	16,502	14,687	2,527	17,214
Administrative expenses	(13,110)	(1,067)	(14,177)	(10,213)	(970)	(11,183)
Exceptional items	(155)	(23)	(178)	(327)	(8)	(335)
Impairment losses	-	-	-	(812)	-	(812)
Segment result	1,268	879	2,147	3,335	1,549	4,884
Reconciliation of segment result to profit before tax:						
Segment result	1,268	879	2,147	3,335	1,549	4,884
Finance expense	(370)	-	(370)	(150)	-	(150)
Profit before tax	898	879	1,777	3,185	1,549	4,734
Analysis of total revenue by geographical market:						
UK	17,863	4,838	22,701	18,430	4,954	23,384
Europe	6,289	680	6,969	6,317	1,557	7,874
Spain	7,268	-	7,268	5,495	-	5,495
Denmark	4,580	-	4,580	3,309	-	3,309
USA	2,825	2,131	4,956	4,227	1,069	5,296
Australia and New Zealand	1,408	2	1,410	1,282	20	1,302
Rest of World	1,386	12	1,398	1,815	2	1,817
Total	41,619	7,663	49,282	40,875	7,602	48,477

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2. Segmental information (continued)

Revenues of approximately £5,269,000 are derived from a single external customer based in Spain and £3,797,000 are derived from a single external customer based in Denmark.

During the year ended 31 December 2018, the Group had no customer that exceeded 10% of total revenue.

The Directors are not able to attribute the Group's assets and liabilities by reportable business segment.

**Analysis of non-current assets
by geographical market.**

Year ended 31 December	2019 UK	2019 USA	2019 Total	2018 UK	2018 USA	2018 Total
Goodwill	6,720	554	7,274	6,720	554	7,274
Intangibles	6,286	796	7,082	8,479	1,007	9,486
Property, plant and equipment	675	9	684	1,348	10	1,358
Right of use assets	4,399	286	4,685	-	-	-
	<u>18,080</u>	<u>1,645</u>	<u>19,725</u>	<u>16,547</u>	<u>1,571</u>	<u>18,118</u>

3. Operating profit

Operating profit for the period is stated after charging/ (crediting):

	Year ended 31 December	
	2019	2018
	£'000	£'000
Foreign exchange loss/(gain)	227	(359)
Depreciation	326	529
Amortisation of right of use assets	868	-
Amortisation of intangible assets	2,439	2,272
Impairment	-	812
Loss on disposal of fixed asset	-	7
Operating lease costs		
- Land and buildings	-	557
- Equipment	-	71
Write-down inventories at net realisable value	83	114
Exceptional costs	178	335

The expenditure incurred within the table above falls wholly within Administrative expenses.

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3. Operating profit (continued)

Exceptional costs

Exceptional costs in 2019 included £0.15 million of restructuring costs in the United States and £0.02 million of non-recurring legal and professional fees.

Exceptional costs in 2018 included £0.16 million of acquisition costs as they were one off legal and professional fees incurred in acquiring LMS USA on 2 August 2018, plus £0.10 million of professional fees relating to the acquisition of Retra in 2017, plus £0.08 million of staff restructuring costs at Retra (2017: £0.40 million of acquisition costs as they were legal and professional fees and commissions incurred in acquiring Retra on 30 November 2017. Total acquisition costs were £1.2 million of which £0.8 million related to the issue of new shares to fund the purchase of Retra and these were charged against the share premium account).

Auditor's Remuneration

Analysis of auditor's remuneration is as follows:

	Year ended 31 December	
	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Group's annual accounts	49	36
Fees payable to the Company's auditor for the audit of subsidiary companies	102	78
	151	114
Other services pursuant to legislation:		
Tax advice	12	7
Other assurance	3	3
Total non-audit fees	15	10

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4. Staff costs

	Year ended 31 December	
	2019	2018
	£'000	£'000
Wages and salaries	4,576	4,252
Social security costs	449	521
Pension costs	81	68
	<u>5,106</u>	<u>4,841</u>

The average monthly number of employees during the period was as follows:

	Year ended 31 December	
	2019	2018
	No.	No.
Directors	7	6
Administrative	40	40
Finance	5	3
Warehouse	45	45
Sales	3	6
Other	11	12
	<u>111</u>	<u>112</u>
	<u>2019</u>	<u>2018</u>
Directors' remuneration, included in staff costs	£'000	£'000
Salaries	740	719
Share based payments	674	69
Benefits	16	14
Pension contributions	2	3
	<u>1,432</u>	<u>805</u>

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4. Staff costs (continued)

Remuneration in respect of Directors was as follows:

	Salary/fees £'000	Share based payment £'000	Benefits £'000	Pension contribution £'000	2019 £'000	2018 £'000
Executive Directors						
S Bazini	200	284	9	-	493	224
E Macleod	200	284	7	-	491	222
N Rodol	150	102	-	1	253	185
S Craig	50	4	-	1	55	33
Non-executive Directors						
C Garston	60	-	-	-	60	60
K Sadler	40	-	-	-	40	41
P Hagon	40	-	-	-	40	40
	740	674	16	2	1,432	805

	Number of Share options at January 2019	Number of Share options awarded in the year	Number of Share options lapsed in the year	Number of Share options at December 2019	Exercise Price	Earliest Exercise Date	Exercise Expiry Date
N Rodol	412,258	-	-	412,258	105,262 @237.59p 306,996 @254.5p	29/06/2020 21/09/2021	29/06/2027 21/09/2028
S Bazini	1,534,986	-	-	1,534,986	254.5p	21/09/2021	21/09/2028
E Macleod	1,534,986	-	-	1,534,986	254.5p	21/09/2021	21/09/2028
S Craig	10,000	-	-	10,000	237.59p	29/06/2020	29/06/2027
Total share options	3,492,230	-	-	3,492,230			

The directors of the Group are the only key management personnel.

5. Finance expense

	Year ended 31 December	
	2019 £'000	2018 £'000
Loan interest	26	28
Lease liability interest	225	59
Other interest	119	63
	370	150

WARPAINT LONDON PLC
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6. Income tax

	Year ended 31 December	
	2019	2018
	£'000	£'000
Current tax expense		
Current tax on profits for the period	1,102	1,660
Adjustment in respect of previous periods	(75)	-
	<u>1,027</u>	<u>1,660</u>
Deferred tax expense		
Origination and reversal of temporary differences	(618)	(501)
	<u>409</u>	<u>1,159</u>

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profit for the year as follows:

	Year ended 31 December	
	2019	2018
	£'000	£'000
Profit for the period before taxation	1,777	4,734
Expected tax charge based on corporation tax rate of 19% (2018: 19%)	337	899
Expenses not deductible for tax purposes	170	47
Other adjustments	5	12
Different tax rates applied in overseas jurisdiction	86	20
Adjustments in relation to prior year	(75)	-
Adjustment to deferred tax to average rate	(114)	181
	<u>409</u>	<u>1,159</u>

The UK corporation tax at the standard rate for the year is 19.0% (2018: 19.0%).

In the Finance Act 2016 the UK government announced its intention to reduce the standard corporation tax rate to 17% by 2020. The measure to reduce the rate to 17% for the financial year beginning 1 April 2020 was substantively enacted on 6 September 2016 and has, where applicable, been reflected in the financial statements. However, the UK government announced that the corporation tax rate will remain at 19% but was not substantively enacted until after the balance sheet date.

The Group's effective tax rate for the year is 25.19% (2018: 24.5%).

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7. Subsidiaries

At the period end, the Group has the following subsidiaries:

<u>Subsidiary name</u>	<u>Nature of business</u>	<u>Place of incorporation</u>	<u>Percentage owned</u>
Warpaint Cosmetic Group Limited	Holding company	England and Wales	100%
Warpaint Cosmetics (2014) Limited*	Wholesaler	England and Wales	100%
Treasured Scents (2014) Limited	Wholesaler	England and Wales	100%
Treasured Scents Limited*	Holding company	England and Wales	100%
Warpaint Cosmetics Inc.	Dormant	U.S.A.	100%
Retra Holdings Limited	Holding company	England and Wales	100%
Badgequo Limited*	Wholesaler	England and Wales	100%
Retra Own Label Limited*	Dormant	England and Wales	100%
Badgequo Deutschland GmbH*	Supply chain management	Germany	100%
Badgequo Hong Kong Limited*	Supply chain management	Hong Kong	100%
Jinhua Badgequo Cosmetics Trading Co., Ltd	Wholesaler	People's Republic of China	100%
Marvin Leeds Marketing Services, Inc.	Wholesaler	U.S.A.	100%
Warpaint Cosmetics (ROI) Limited	Dormant	Republic of Ireland	100%

* indicates indirect interest

All entities detailed above have been in existence for the whole of the reporting period.

The registered office for all UK incorporated subsidiaries is Units B&C, Orbital Forty-Six, The Ridgeway Trading Estate, Iver, Bucks. SL0 9HW.

The registered office for Warpaint Cosmetics Inc. is 445 Northern Boulevard – Great Neck, New York 11021.

The registered office for Badgequo Deutschland GmbH is Robert-Bosch-Straße 10, Haus 1, 56410 Montabaur, Germany.

The registered office for Badgequo Hong Kong Limited is 12F, 3 Lockhart Road, Wanchai, Hong Kong.

The registered office for Jinhua Badgequo Cosmetics Trading Co. Ltd is Room 1401, Gongyuan Building No. 307 South Shuanglong Street, Wucheng District, Jinhua, Zhejiang, China 321000.

The registered office for Marvin Leeds Marketing Services, Inc. is 34W. 33rd St. – Suite 1015, New York NY 10001.

The registered office for Warpaint Cosmetics (ROI) Limited is 6th Floor, South Bank House, Barrow Street, Dublin 4, D04 TR29.

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8. Prior year acquisitions

Marvin Leeds Marketing Services, Inc.

On 2 August 2018, the Group acquired the entire share capital of Marvin Leeds Marketing Services, Inc. ("LMS"), the Group's USA distributor. The principal reason for acquiring LMS was to provide direct access to the Warpaint brand to some key existing customers and to open a number of new opportunities in the USA and the Americas more widely. LMS has contributed £2,356,000 to revenue for the period between the date of acquisition and 31 December 2018, the balance sheet date. Had LMS been consolidated from 1 January 2018, the consolidated income statement for the year ended 31 December 2018 would show additional revenue of \$5,500,000 (£4,093,000) and a loss before tax of \$198,000 (£148,000).

The fair value of the net assets recognised in USD and their GBP equivalent at the acquisition date is as follows:	Book value	Fair value adjustment	Total (as restated)	Book value	Fair value adjustment	Total (as restated)
	\$'000	\$'000	\$'000	£'000	£'000	£'000
Customer lists	-	1,381	1,381	-	1,057	1,057
Property, plant and equipment	11	-	11	8	-	8
Stock	1,708	-	1,708	1,307	-	1,307
Trade and other receivables	255	-	255	195	-	195
Cash and cash equivalents	356	-	356	272	-	272
Trade and other payables	(2,228)	-	(2,228)	(1,705)	-	(1,705)
Deferred tax asset	219	-	219	168	-	168
Deferred tax liability	-	(346)	(346)	-	(265)	(265)
Net assets acquired	321	1,035	1,356	245	792	1,037
Goodwill arising on acquisition			724			554
Consideration			2,080			1,591

The gross contractual amount of trade receivables is equal to the fair value. The fair value adjustment is based on level 3 inputs.

During the year ended 31 December 2019, fair values of assets acquired were finalised and it was discovered that the fair value of Trade and other receivables were overstated by £223,000 (\$291,000). An adjustment was made this year, restating the comparative figures, resulting in a decrease in Trade and other receivables to £195,000 and an increase in Goodwill to £554,000 from £331,000.

Goodwill comprises the value of expected synergies and other opportunities arising from the acquisition, management know how, the skilled work force employed by LMS and other intangible assets that do not qualify for separate recognition. None of the goodwill recognised is expected to be deductible for tax purposes.

The fair value of consideration paid is as follows:

	\$'000	£'000
Cash consideration	2,080	1,591
	2,080	1,591

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8. Acquisitions (continued)

Costs associated with the acquisition of LMS are £160,000 and are disclosed within exceptional costs in note 3.

The profit and loss for LMS from the date of acquisition to 31 December 2018 is as follows:

	\$'000	£'000
Revenue	3,029	2,356
Cost of sales	(2,935)	(2,284)
Gross profit	94	72
Administrative expenses	(442)	(344)
Loss before taxation	(348)	(272)
Tax expense	75	58
Total comprehensive loss for the period	(273)	(214)

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9. Goodwill

Cost	£'000
At 1 January 2018	7,532
Arising on acquisition of Marvin Leeds Marketing Services, Inc.	554
At 31 December 2018 and 31 December 2019	8,086
Impairment	
At 31 December 2018	812
Impairment during the year	-
At 31 December 2019	812
Net book value	
At 31 December 2019	7,274
At 31 December 2018 (as restated)	7,274

Goodwill represents the excess of consideration over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. The carrying value at 31 December 2019 includes Treasured Scents Limited £513,000, Retra Holdings Limited £6,207,000 and Marvin Leeds Marketing Services, Inc. £554,000.

During the year ended 31 December 2018, the consideration for the acquisition of Retra Holdings Limited was finalised. The previously disclosed purchase price of £18.36 million was reduced by £450,000 resulting in a reduction in the goodwill figure arising on acquisition from £7,469,000 to £7,019,000. Goodwill arising on acquisition in the year ended 31 December 2018 relates to the Group's acquisition of Marvin Leeds Marketing Services, Inc.. During the year ended 31 December 2019, the net assets acquired were reduced by £233,000 resulting in an increase in the previously disclosed goodwill figure. The comparative figures at 31 December 2018 have been adjusted retrospectively.

Impairment is calculated by comparing the carrying amounts to the recoverable amount being the higher of value in use derived from discounted cash flow projections or the fair value less costs to sell. A CGU is deemed to be an individual division, and these have been grouped together into similar classes for the purpose of formulating operating segments as reported in note 2. Value in use calculations are based on a discounted cash flow model ("DCF") for the subsidiary, which discounts expected cash flows over a five-year period using a pre-tax discount rate of 15.55% (2018: 16.7%) for Retra Holdings Limited and 14.1% (2018: 20.1%) for Marvin Leeds Marketing Services, Inc.. Cash flows beyond the five-year period are extrapolated using a long-term average growth rate of 2.0% (2018: 2.0%). The average growth rate beyond the five-year period is lower than current growth rates and is in line with Management's expectations for the business.

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9. Goodwill (continued)

The fair value less costs to sell was based on a multiple of earnings less estimated costs to sell. Management have performed the annual impairment review as required by IAS 36 and have concluded that no impairment is indicated for Treasured Scents Limited, Retra Holdings Limited or Marvin Leeds Marketing Services, Inc. as the recoverable amount exceeds the carrying value.

Key Assumptions and sensitivity to changes in assumptions

The key assumptions are based upon management's historical experience. The calculation of VIU is most sensitive to the following assumptions:

- Sales and EBITDA – for LMS this is based on forecasts incorporating growth of 10.0% in revenue over the next five years. For Retra, the growth rate over the next year is anticipated to be 10.0% reducing to approximately 7.0% in years 2 to 5. EBITDA percentages for both LMS and Retra are based on historical rates achieved.
- Discount Rate – pre-tax discount rate of 15.4% for Retra Holdings Limited and 18.8% for Marvin Leeds Marketing Services, Inc. reflects the Directors' estimate of an appropriate rate of return, taking into account the relevant risk factors
- Growth Rate – used to extrapolate beyond the budget period and for terminal values based on a long-term average growth rate of 2.0% for LMS and Retra.

Sensitivity to changes in assumptions

The impairment review of the Group is sensitive to changes in the key assumptions, most notably the pre-tax discount rate, the terminal growth rate, the projected operating cash flows and the multiple applied in the fair value less cost to sell calculation. Reasonable changes to these assumptions are considered to be:

- 1.0% increase in the pre-tax discount rate.
- 1.0% reduction in the terminal growth rate.
- 10.0% reduction in projected operating cash flows.
- 10.0% reduction in valuation multiple.

Reasonable changes to the assumptions used, considered in isolation, would not result in an impairment of goodwill for LMS or Retra.

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10. Intangible assets

	Brands	Customer lists	Patents	Website	Licences	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2018	3,802	7,183	174	40	6	11,205
On acquisition of subsidiaries	-	1,057	-	-	-	1,057
Additions	-	-	43	5	-	48
At 31 December 2018	3,802	8,240	217	45	6	12,310
Additions	-	-	35	-	-	35
At 31 December 2019	3,802	8,240	252	45	6	12,345
Accumulated amortisation						
At 1 January 2018	63	426	50	11	2	552
Charge for the year	761	1,482	20	8	1	2,272
At 31 December 2018	824	1,908	70	19	3	2,824
Charge for the year	761	1,646	22	9	1	2,439
At 31 December 2019	1,585	3,554	92	28	4	5,263
Net book value						
At 31 December 2019	2,217	4,686	160	17	2	7,082
At 31 December 2018	2,978	6,332	147	26	3	9,486
At 1 January 2018	3,739	6,757	124	29	4	10,653

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11. Property, plant and equipment

	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Costs					
At 1 January 2018	827	573	227	128	1,755
Additions	73	192	114	13	392
On acquisition of subsidiary	-	6	2	-	8
Disposals	(3)	-	(12)	-	(15)
At 31 December 2018	897	771	331	141	2,140
Reclassification to Right of use assets	(760)	-	(77)	-	(837)
Additions	116	119	49	-	284
Disposals	(3)	(42)	(1)	-	(46)
At 31 December 2019	250	848	302	141	1,541
Accumulated depreciation					
At 1 January 2018	65	134	28	31	258
Charge for year	170	194	137	28	529
On disposals	(2)	-	(3)	-	(5)
At 31 December 2018	233	328	162	59	782
Reclassification to Right of use assets	(208)	-	(36)	-	(244)
Charge for year	35	205	56	30	326
On disposals	(1)	(5)	(1)	-	(7)
At 31 December 2019	59	528	181	89	857
Net book value					
At 31 December 2019	191	320	121	52	684
At 31 December 2018	664	443	169	82	1,358
At 1 January 2018	762	439	199	97	1,497

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11. Property, plant and equipment (continued)

The net book value of assets held under finance leases or hire purchase contracts, included above are as follows:

	As at 31 December	
	2019 £'000	2018 £'000
Plant and machinery	-	12
Computer equipment	-	41
	<u>-</u>	<u>53</u>

12. Right-of-use assets

	Leasehold property £'000	Plant and machinery £'000	Computer equipment £'000	Total £'000
Costs				
At 1 January 2019	-	-	-	-
Reclassified from property, plant and equipment	-	760	77	837
Recognised on adoption of IFRS 16	4,960	-	-	4,960
At 31 December 2019	4,960	760	77	5,797
Accumulated amortisation				
At 1 January 2019	-	-	-	-
Reclassified from property, plant and equipment	-	208	36	244
Charge for year	729	113	26	868
At 31 December 2019	729	321	62	1,112
Net Book Value				
At 31 December 2019	4,231	439	15	4,685
At 31 December 2018	-	-	-	-

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13. Inventories

	As at 31 December	
	2019 £'000	2018 £'000
Finished goods	16,387	15,472
Provision	(193)	(110)
	<u>16,194</u>	<u>15,362</u>

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £29.11 million in the year ended 31 December 2019 (2018: £28.30 million).

14. Trade and other receivables

	As at 31 December	
	2019 £'000	2018 (as restated) £'000
Trade receivables – gross	10,310	10,916
Provision for impairment of trade receivables	(44)	(114)
Trade receivables – net	<u>10,266</u>	<u>10,802</u>
Other receivables	1,237	485
Prepayments and accrued income	1,121	1,010
Total	<u>12,624</u>	<u>12,297</u>

The directors consider that the carrying value of trade and other receivables measured at book value and amortised cost approximates to fair value.

Trade receivables amounting to £506,000 (2018: £1,909,000) are pledged as collateral against an invoice financing facility.

The individually impaired receivables relate to the supply of goods to customers. A provision is recognised for amounts not expected to be recovered. Movements in the accumulated impairment losses on trade receivables were as follows:

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14. Trade and other receivables (continued)

	As at 31 December	
	2019	2018
	£'000	£'000
Accumulated impairment losses at 1 January	114	173
Additional impairment losses recognised/(released) during the year, net	(10)	(14)
Amounts written off during the year as uncollectible	(60)	(45)
Accumulated impairment losses at 31 December	44	114

The impairment losses recognised during the year are net of a credit of £10,000 (2018: £14,000) relating to the recovery of amounts previously written off as uncollectable.

Contract Liabilities

	As at 31 December	
	2019	2018
	£'000	£'000
At 1 January	305	382
Amounts included in contract liabilities that was recognised as revenue during the period	660	635
Amounts settled during the period	(644)	(712)
At 31 December	321	305

Contract liabilities are included within "trade and other receivables" in the face of the statement of financial position being settled net of the trade debtor balances. They arise from the group's own brand segment, which enter into contracts with customers for early settlement discounts, marketing contributions and volume rebates, because the invoiced amounts to customers at each balance sheet date do not consider the amount or rebate and discounts the customers are entitled to until settlement of the debtor balance at a certain time.

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15. Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	As at 31 December	
	2019	2018
	£'000	£'000
Cash at bank and in hand	2,731	4,041
	<u>2,731</u>	<u>4,041</u>

16. Trade and other payables

	As at 31 December	
	2019	2018
	£'000	£'000
Current		
Trade payables	957	1,435
Social security and other taxes	546	476
Other payables	58	847
Accruals and deferred income	2,372	731
Total	<u>3,933</u>	<u>3,489</u>

The directors consider that the carrying value of trade and other payables measured at book value and amortised cost approximates to fair value.

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17. Loans and borrowings

	As at 31 December	
	2019	2018
	£'000	£'000
Bank loans		
Repayable within 1 year	1,281	1,992
Repayable within 2 – 5 years	48	139
	1,329	2,131
Hire purchase finance		
Repayable within 1 year	-	177
Repayable within 2 – 5 years	-	414
	-	591
Lease liabilities		
Repayable within 1 year	925	-
Repayable within 2 – 5 years	2,584	-
Repayable in more than 5 years	1,231	-
	4,740	-
Total		
Repayable within 1 year	2,206	2,169
Repayable within 2 – 5 years	2,632	553
Repayable in more than 5 years	1,231	-
	6,069	2,722

Lease liabilities

	As at 31 December 2019			
	Leasehold property	Plant and machinery	Computer equipment	Total
	£'000	£'000	£'000	£'000
At 1 January 2019	4,960	550	41	5,551
Interest expense	168	53	4	225
Lease payments	(802)	(205)	(29)	(1,036)
At 31 December 2019	4,326	398	16	4,740

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17. Loans and borrowings (continued)

Nature of lease liabilities

The group leases a number of properties in the United Kingdom and United States of America as well as certain items of plant and equipment.

An additional £11,730 has been expensed to the statement of comprehensive income in respect of low value operating leases. Interest payments of £9,717 have also been expenses in respect of leases that expired during the period.

The interest rates expected are as follows:

	As at 31 December	
	2019	2018
	%	%
Finance loans	7.0	7.0
Bank loans	8.75	8.75
Invoice financing	3.25	3.25

Secured loans

The borrowings of the subsidiary companies, Retra Holdings Limited and Badgequo Limited, are secured by a debenture including a fixed charge over the present leasehold property, a first fixed charge over book and other debts and a first floating charge over all assets of those companies.

Bank borrowings include stock and invoice financing facilities amounting to £1,086,000 (2018: £1,909,000 invoice financing). The carrying value of assets pledged as collateral approximates to £1,086,000 (2018: £1,909,000).

18. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rate of 17% - 25%.

The movement on the deferred tax account is as shown below:

	Deferred tax liability		Deferred tax asset	
	Year ended 31 December		Year ended 31 December	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Opening balance	(1,796)	(1,959)	241	-
On acquisition of subsidiary		(265)		168
Foreign exchange adjustment			(13)	-
Recognised in profit and loss:				
Tax expense	472	428	146	73
Closing balance	(1,324)	(1,796)	374	241

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18. Deferred tax (continued)

The deferred tax liability has arisen due to the timing difference on accelerated capital allowances amounting to £37,000 (2018: £51,000) and on the intangible assets acquired in a business combination amounting to £1,057,000 (2018: £1,057,000).

In the Finance Act 2016 the UK government announced its intention to reduce the standard corporation tax rate to 17% by 2020. The measure to reduce the rate to 17% for the financial year beginning 1 April 2020 was substantively enacted on 6 September 2016 and has, where applicable, been reflected in the financial statements.

Deferred tax asset has arisen from loss carry forward for LMS amounting to £1,497,000 (2018: £964,000) and recognised at a rate of 25%.

19. Dividends

Year to December 2019	Paid	Amount per share	Total £'000
Final dividend - 2018	11 July 19	2.9p	2,226
Interim dividend - 2019	12 Nov 19	1.5p	1,151
			3,377
Year to December 2018	Paid	Amount per share	Total £'000
Final dividend – 2017	10 Jul 18	2.6p	1,995
Interim dividend – 2018	13 Nov 18	1.5p	1,150
			3,145

20. Called up share capital

	No of shares	
	'000	£'000
Allotted and issued		
Ordinary shares of £0.25 each:		
At 1 January 2018 and 2019	76,749	19,187
At 31 December 2018 and 2019	76,749	19,187

All ordinary shares carry equal rights.

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21. Reserves

Share premium

The share premium reserve contains the premium arising on the issue of equity shares, net of issue expenses incurred by the Company.

Retained earnings

Retained earnings represent cumulative profits or losses, net of dividends and other adjustments.

Merger reserve

The merger reserve arose due to the group reconstruction in 2016. The effect of the application of merger accounting principles on the merger reserve is that the share capital and other distributable reserves that existed in Warpaint Cosmetics Group Limited (the Company) as at the point Warpaint London PLC legally acquired Warpaint Cosmetics Group Limited is accounted for as if it had been in existence as at 31 December 2015 and as at the 1 January 2015. The corresponding entry being the merger reserve so the overall net assets as at the comparative dates are not affected.

The 2016 movement on the merger reserve arose due to the acquisition of Treasured Scent (2014) Limited on 11 November 2016. The shareholders of Treasured Scent (2014) Limited transferred their shares to Warpaint London PLC in exchange for shares in Warpaint London PLC, the difference in fair value of the consideration was £2,005,233. This is adjusted through the merger reserve as it is considered part of the consideration paid by Warpaint London PLC to acquire Treasured Scents (2014) Limited.

The 2017 movement in merger reserve represents the difference between the issue price and the nominal value of shares issued as consideration for the acquisition of subsidiary undertaking.

Share option reserves

'Share option reserves' have arisen from the share-based payment charge. The shares over which the options were issued are that of the parent company. 'Other reserves' have also arisen on translation of foreign subsidiaries.

22. Share based payments

Movements in the number of options and their weighted average exercise prices are as follows:

	Weighted average exercise price (pence) 2019	Number of options 2019	Weighted average exercise price (pence) 2018	Number of options 2018
Outstanding at the beginning of the year	253.52	4,070,617	237.50	255,892
Granted during the year	-	-	254.50	3,837,462
Expired during the year	237.50	(3,368)	237.50	(22,737)
Period adjustments	237.50	21,053		
Outstanding at the end of the year	253.45	4,088,302	253.53	4,070,617

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22. Share based payments (continued)

The weighted average remaining contractual life of the options is 4.0 years (2018: 5.0 years).

The following options over ordinary shares have been granted by the Company:

	Exercise price	Exercise period (years)	Number of options
	Pence		
29 June 2017	237.50	3	255,051
24 September 2018	254.50	5	3,837,462

At the date of grant, the options were valued using the Black-Scholes option pricing model. The fair value per options granted and the assumptions used in the calculations were as follows:

	24 Sept 18	29 June 17
Expected volatility	78%	64%
Expected life (years)	2-4	3
Risk-free interest rate	1.61%	0.38%
Expected dividend yield	1.53%	2%
Fair value per option (£)	0.422	0.963

On 21 September 2018, share options with an exercise price of 254.50p, equal to the closing mid-market value immediately prior to the date of grant, and subject to the achievement of demanding Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") performance conditions measured over a period of up to 5 years were granted to certain directors.

The share options are exercisable up to 10 years from the date of grant. Vesting is subject to the performance conditions set out below:

- 50% of the award is subject to an adjusted EPS growth performance condition. One third of this portion of the award will be tested and vest after three, four and five years. Vesting is based on adjusted EPS in the years ending Dec 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 12.5% compound annual EPS growth and full vesting at 22.5% compound annual EPS growth, measured from 31 December 2017.
- 50% of the award is subject to an absolute TSR performance condition tested following the announcement of results for the years ending 31 December 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 8% compound annual TSR and straight line vesting up to 100% vesting at 18% compound annual TSR, measured from 31 December 2017.

An additional grant of 460,494 share options with the same terms was made on the same date to three senior management individuals of the Company.

On 29 June 2017, the Company granted in aggregate over 277,788 ordinary shares of 25 pence each in the Company under the Enterprise Management Incentive Scheme to all staff members, including the Company's Chief Financial Officer, Neil Rodol, but excluding all other directors. The Options are exercisable for a period of seven years from 29 June 2020, subject to certain performance conditions being met, including that the compound annual growth rate in the Company's earnings per share must exceed 8 per cent over the three financial years commencing 1 January 2017, subject to the discretion of the Company's remuneration committee.

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22. Share based payments (continued)

The charge in the statement of comprehensive income for the share-based payments during the year was £835,000 (2018: £116,000).

23. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Related party transactions are considered to be conducted at arm's length.

Key management personnel are considered to be the directors. Compensation of the directors is disclosed in note 4 with the exception of dividends and drawings which are disclosed in note 19.

During 2019, Warpaint Cosmetics (2014) Limited paid rent in the sum of £120,000 (2018: £120,000) to Direct Supplies (2014) Group Limited, of which S Bazini is a director. At the year end the amount due to Direct Supplies (2014) Group Limited was £Nil (2018: £Nil).

During 2019, Warpaint Cosmetics (2014) Limited paid rent in the sum of £120,000 (2018: £120,000) to Trading Scents Group Limited, of which E Macleod is a director. At the year end the amount due to Trading Scents Group Limited was £Nil (2018: £39,518).

During 2019, Retra Holdings Limited paid rent in the sum of £340,000 (2018: £197,083) to Warpaint Cosmetics Limited, of which E Macleod and S Bazini are directors.

During the year, the Company advanced £Nil (2018: £Nil) to S Bazini, a director of the Company. During the year, the director repaid £100 (2018: £100). At the year end the Company owed the sums of £Nil (2018: £100) to S Bazini.

During the year, the Company advanced £Nil (2018: £Nil) to E Macleod, a director of the Company. During the year, the director repaid £100 (2018: £100). At the year end the Company owed the sums of £Nil (2018: £100) to E Macleod.

24. Financial instruments

Capital risk management

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The Group reports in Sterling. All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors.

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce cost of capital. The capital structure of the Group comprises equity attributable to equity holders of the Company consisting of invested capital as disclosed in the Statement of Changes in Equity and cash and cash equivalents.

The Group's invested capital is made up of share capital and retained earnings totalling £35,541,000 as at 31 December 2019 (2018: £37,550,000) as shown in the statement of changes in equity.

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24. Financial instruments (continued)

The Group maintains or adjusts its capital structure through the payment of dividends to shareholders and issue of new shares.

	Year ended 31 December	
	2019 £'000	2018 £'000
Financial assets		
Financial assets at amortised cost including cash and cash equivalents:		
Cash and cash equivalents	2,731	4,041
Trade and other receivables	11,503	11,287
	14,234	15,328
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	(3,387)	(3,013)
Bank loan	(6,069)	(2,722)
	(9,456)	(5,735)
Net	4,778	9,593

Financial assets measured at fair value through the income statement comprise cash and cash equivalents.

Financial assets measured at amortised cost comprise trade receivables and other receivables.

Financial liabilities measured at amortised cost comprise trade payables and other payables, and bank loans.

Cash and cash equivalents

This comprises cash and short-term deposits held by the Group. The carrying amount of these assets approximates their fair value.

General risk management principles

The Group's activities expose it to a variety of risks including market risk (interest rate risk), credit risk and liquidity risk. The Group manages these risks through an effective risk management programme and through this programme, the Board seeks to minimise potential adverse effects on the Group's financial performance. The Directors have an overall responsibility for the establishment of the Group's risk management framework. A formal risk assessment and management framework for assessing, monitoring and managing the strategic, operational and financial risks of the Group is in place to ensure appropriate risk management of its operations.

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24. Financial instruments (continued)

The following represent the key financial risks that the Group faces:

Market risk

The Group's activities expose it to the financial risk of interest rates.

Interest rate risk

The Group's interest rate exposure arises mainly from its interest-bearing borrowings. Contractual agreements entered into a floating rate expose the entity to cash flow risk. Interest rate risk also arises on the Group's cash and cash equivalents. The Group does not enter into derivative transactions in order to hedge against its exposure to interest rate fluctuations. An increase in the rate of interest by 100 basis points would decrease profits by £21,000 (2018: £18,000) with an increase in profits by the same amount for a decrease in the rate of interest by 100 basis points.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations.

The Group's principal financial assets are trade and other receivables and bank balances and cash. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's credit risk is primarily attributable to trade receivables. The Group has a policy of assessing credit worthiness of potential and existing customers before entering into transactions. There is ongoing credit evaluation on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group manages the collection of its receivables through its ongoing contact with customers so as to ensure that any potential issues that could result in non-payment of the amounts due are addressed as soon as identified. The Group makes a provision in the financial statements for expected credit losses based on an evaluation of historical data and applies percentages based on the ageing of trade receivables.

Credit risk (continued)

The maximum exposure to credit risk in respect of the above is the carrying value of financial assets recorded in the financial statements. At 31 December 2019, the Group has trade receivables of £10,266,000 (2018: £10,802,000 as restated).

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24. Financial instruments (continued)

The following table provides an analysis of trade receivables that were due, but not impaired, at each financial year end. The Group believes that the balances are ultimately recoverable based on a review of past impairment history and the current financial status of customers.

	As at 31 December	
	2019	2018 (as restated)
	£'000	£'000
Current	7,416	3,983
1 – 30 days	1,981	3,014
31 – 60 days	456	2,597
61 – 90 days	155	924
91 + days	302	398
Provision for impairment of trade receivables	(44)	(114)
Total trade receivables - net	10,266	10,802

The Directors are unaware of any factors affecting the recoverability of outstanding balances at 31 December 2019 and, consequently, no further provisions have been made for bad and doubtful debts.

The allowance for bad debts has been calculated using a 12-month lifetime expected credit loss model, as set out below, in accordance with IFRS 9.

	As at 31 December			As at 31 December		
	2019			2018		
	£'000	%	£'000	£'000	%	£'000
Current	7,416	0.096	7	4,206	0.122	5
1 – 30 days	1,981	0.288	6	3,014	0.366	11
31 – 60 days	456	0.864	4	2,597	1.098	29
61 – 90 days	155	2.592	4	924	3.294	30
91 + days	302	7.776	23	398	9.882	39
			44			114

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24. Financial instruments (continued)

Credit quality of financial assets

	As at 31 December	
	2019	2018
	£'000	£'000
Trade receivables, gross (note 14):		
Receivable from large companies	6,561	3,617
Receivable from small or medium-sized companies	855	589
Total neither past due nor impaired	7,416	4,206

	As at 31 December	
	2019	2018
	£'000	(as restated) £'000
Past due but not impaired:		
Less than 30 days overdue	1,981	2,791
30 – 90 days overdue	869	3,805
Total past due but not impaired	2,850	6,596

Lifetime expected loss provision:		
Less than 30 days overdue	13	16
30 – 90 days overdue	31	98
Total lifetime expected loss provision (gross)	44	114
Less: Impairment provision	(44)	(114)
Total trade receivables, net of provision for impairment	10,266	10,802

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24. Financial instruments (continued)

Cash and cash equivalents, neither past due nor impaired (Moody's ratings of respective counterparties):

	As at 31 December	
	2019	2018
	£'000	£'000
A rated	-	434
AA rated	786	1,086
AAA rated	7	-
BAA rated	1,938	2,521
Total cash and cash equivalents	2,731	4,041

For the purpose of the groups monitoring of credit quality, large companies or groups are those that, based on information available to management at the point of initially contracting with the entity, have annual turnover in excess of £100,000 (2018: £100,000).

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it closely monitors its access to bank and other credit facilities in comparison to its outstanding commitments on a regular basis to ensure that it has sufficient funds to meet the obligations as they fall due.

The Board receives regular forecasts which estimate cash flows over the next eighteen months, so that management can ensure that sufficient funding is in place as it is required.

The tables below summarise the maturity profile of the combined group's non-derivative financial liabilities at each financial year end based on contractual undiscounted payments, including estimated interest payments where applicable:

Year ended 31 December 2019

	Less than 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Trade payables	957	-	-	-	957
Other payables	58	-	-	-	58
Accruals	2,372	-	-	-	2,372
Loans and borrowings	1,667	477	2,755	1,271	6,170
	5,054	477	2,755	1,271	9,557

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24. Financial instruments (continued)

Year ended 31 December 2018

	Less than 6 months	Between 6 months and 1 year	Between 1 and 5 years	Total
	£'000	£'000	£'000	£'000
Trade payables	1,435	-	-	1,435
Other payables	847	-	-	847
Accruals	731	-	-	731
Loans and borrowings	1,910	259	553	2,722
	<u>4,973</u>	<u>259</u>	<u>553</u>	<u>5,735</u>

The borrowings of the group are secured by a debenture including a fixed charge over all present freehold and leasehold property, a first fixed charge over book and other debts and a first floating charge over all assets.

Foreign exchange risk

The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposure in respect of cash and cash equivalents, trade receivables and trade payables, in particular with respect to the US dollar. The Group mitigates its foreign exchange risk by negotiating contracts with key suppliers that offer a flexible discount structure to offset any adverse foreign exchange movements and through the use of forward currency contracts. At December 2019, there were total sums of £254,701 (2018: £72,345) held in foreign currency.

The Group is also exposed to currency risk as the assets of its subsidiary are denominated in US Dollars. At 31 December 2019 the net foreign liability were £0.3m (2018: net foreign asset were £0.3m). Differences that arise from the translation of these assets from US dollar to sterling are recognised in other comprehensive income in the year and the cumulative effect as a separate component in equity. The Group does not hedge this translation exposure to its equity.

A 5% weakening of sterling would result in a £4,000 increase in reported profits and equity, while a 5% strengthening of sterling would result in £3,000 decrease in profits and equity.

	2019	2018
	£'000	£'000
Derivatives carried at fair value:		
Exchange gain on forward foreign currency contracts	39	-

The Group, along with other businesses, will face the risk of inflationary pressures through commodities cost increases, further driven by currency weakness post Brexit.

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24. Financial instruments (continued)

Forward contracts and options

The Group enters into forward foreign exchange contracts and options to manage the risk associated with anticipated sale and purchase transactions which are denominated in foreign currencies.

As at 31 December 2019, the group has 33 (2018: 4) forward foreign exchange contracts outstanding. Derivative financial instruments are carried at fair value.

The following table details the foreign currency contracts outstanding as at the balance sheet date.

a) Contracted exchange rate	2019	2018	2019	2018
	£/\$		£/€	
3 months or less	1,2953	-	1,1394	1,1293
3 to 6 months	1,3280	-	1,1405	1,1275

b) Contract value	2019	2018	2019	2018
	£/\$		£/€	
	£'000	£'000	£'000	£'000
3 months or less	4,723	-	904	779
3 to 6 months	6,408	-	2,899	195
	<u>11,131</u>	<u>-</u>	<u>3,803</u>	<u>974</u>

c) Foreign currency	2019	2018	2019	2018
	\$'000	\$'000	€'000	€'000
3 months or less	6,175	-	1,030	880
3 to 6 months	8,500	-	3,335	220
	<u>14,675</u>	<u>-</u>	<u>4,365</u>	<u>1,100</u>

Fair value of financial assets and liabilities

Financial instruments are measured in accordance with the accounting policy set out in Note 1. All financial instruments carrying value approximates its fair value with the exception of foreign currency forward contracts and options which are considered Level 2. The Directors consider that there is no significant difference between the book value and fair value of the Group's financial assets and liabilities and is considered to be immaterial.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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25. Pension costs

The Group operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the statement of comprehensive income in the period to which they relate. The amount charged to profit in each period was £80,210 (2018: £68,000).

26. Operating lease commitments – Group company as lessee

The group leases offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years and are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Land and buildings	2018 £'000
Not later than 1 year	700
Later than 1 year and not later than 5 years	2,800
Later than 5 years	2,345
Total	5,845

27. Controlling party

In the opinion of the directors there is no ultimate controlling party.

28. Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the period.

The weighted average number of shares for the current year includes the shares issued as consideration for the acquisition of Retra Holdings Limited on 30 November 2017.

	2019	2018
Basic earnings per share (pence)	1.78	4.66
Diluted earnings per share (pence)	1.78	4.66

The calculation of basic and diluted earnings per share is based on the following data:

	2019 £'000	2018 £'000
Earnings		
Earnings for the purpose of basic earnings per share, being the net profit	1,368	3,575

WARPAINT LONDON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

28. Earnings per share (continued)

Number of shares	2019	2018
Weighted number of ordinary shares for the purpose of basic earnings per share	76,749,125	76,749,125
Potentially dilutive shares awarded	-	-
Weighted number of ordinary shares for the purpose of diluted earnings per share	76,749,125	76,749,125

The 4,088,302 share options (2018: 4,092,513) in issue during the year has not been included in the computation of diluted earnings per share, as per IAS 33, the share options are not dilutive as they are not likely to be exercised given that the exercise price is higher than the average market price.

WARPAINT LONDON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

29. Notes supporting statement of cash flows

The non-cash transactions arising on the acquisition of LMS during the year ended 31 December 2018 are as follows:

	2018 Total £'000
Property, plant and equipment	8
Stock	1,307
Trade and other receivables	417
Deferred tax	168
Cash and cash equivalents	272
Trade and other payables	(1,704)
Corporation tax	-
Loans	-
	468

Non-cash transactions from financing activities are shown in the table below.

	Non-current loans and borrowings £'000	Current loans and borrowings £'000	Total £'000
At 1 January 2018	814	582	1,396
Non-cash flows:			
Amounts recognised on business combinations	(261)	261	-
Cash flows	-	1,326	1,326
At 31 December 2018	553	2,169	2,722
Non-cash flows:			
Amount recognised in respect of lease liabilities on adoption of IFRS 16.	4,271	688	4,959
Cash flows	-	(1,612)	(1,612)
Reclassification from Non-current loans and borrowings to current loans and borrowings	(960)	960	-
At 31 December 2019	3,864	2,205	6,069

WARPAINT LONDON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

30. Post balance sheet events

The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been separately considered as part of the directors' consideration of the going concern basis of preparation. Thus far, the Group has experienced a material impact in trading performance due to COVID-19, with many but not all customers closed throughout the UK and overseas.

Whilst it is difficult to predict the overall outcome and impact of COVID-19, the directors have performed an initial assessment of the impact on the carrying value of intangible assets, recoverability of trade receivables and inventory. Although there is likely to be a reduced level of trading activity in the future, the amortisation which will be charged on the intangible assets is anticipated to be sufficient to reduce the carrying value to a level whereby further impairment is not required. For trade receivables, although certain customers are experiencing cash flow pressure, at this stage we do not expect any material bad debt charges. In relation to inventory, the Directors are confident that although sales orders have been delayed, delivery of stock to customers will still occur at some point and no additional provisions are anticipated due to the long shelf life of our products and that they sell all year round. Should any adjustments arise due to the impact of COVID-19, they will be non-adjusting post balance sheet events.

WARPAINT LONDON PLC
COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments	3	35,833	35,833
		35,833	35,833
Current assets			
Trade and other receivables	4	11,298	14,988
Cash and cash equivalents		74	113
Total current assets		11,372	15,101
Current liabilities			
Trade and other payables	5	(110)	(67)
Corporation tax liability		-	-
Total current liabilities		(110)	(67)
Net current assets		11,262	15,034
Total assets less current liabilities		47,095	50,867
Capital and reserves			
Share capital	6	19,187	19,187
Share premium	7	19,359	19,359
Merger reserve	8	1,895	1,895
Share option reserve		977	169
Retained earnings		5,677	10,257
Shareholders' funds		47,095	50,867

As permitted by section 408 of the Companies Act 2006, the profit and loss account is not presented. The loss for the year amounted to £1,231,000 (2018: £8,433,000 profit).

The financial statements on pages 108 to 116 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Neil Rodol

Chief Financial Officer

Date: 13TH MAY 2020

The notes on pages 110 to 116 form part of these financial statements.

WARPAINT LONDON PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital	Share Premium	Merger Reserve	Share Option Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December 2017	19,187	19,359	1,895	45	4,971	45,457
Share based payment charge	-	-	-	124	-	124
Profit for the year	-	-	-	-	8,433	8,433
Dividends paid	-	-	-	-	(3,147)	(3,147)
As at 31 December 2018	19,187	19,359	1,895	169	10,257	50,867
Lapsed share option	-	-	-	(28)	28	-
Share based payment charge	-	-	-	836	-	836
Loss for the year	-	-	-	-	(1,231)	(1,231)
Dividends paid	-	-	-	-	(3,377)	(3,377)
As at 31 December 2019	19,187	19,359	1,895	977	5,677	47,095

The notes on pages 110 to 116 form part of these financial statements.

WARPAINT LONDON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. Significant accounting policies

Basis of preparation

These separate financial statements of Warpaint London PLC have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland (FRS 102), and with the Companies Act 2006.

The Company's financial statements are presented in GBP.

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available to qualifying entities:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent company would be identical;
- No cash flow statement or net debt reconciliation has been presented for the parent company;
- Disclosures in respect of the parent company's income, expense, net gains and net losses on financial instruments measured at amortised cost have not been presented as equivalent disclosures have been provided in respect of the group as a whole;
- Disclosures in respect of the parent company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements except as set out below.

Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme).

WARPAINT LONDON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. Significant accounting policies (continued)

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the profit and loss account is charged with the fair value of goods and services received.

Going Concern

Going concern for the company has been considered along with the Group by the directors. The consideration is set out in note 1 of the consolidated financial statements.

Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements and accounting estimates and assumptions

Impairment of investments

An impairment test is undertaken where there are indicators of the value of the investment being impaired. The directors use judgement in assessing the value of investments held.

Recoverability of intercompany balances

The directors assess the recoverability of balances from group companies based on the estimated trading results of the subsidiary companies.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the annual general meeting.

Prior year restatement

During the year ended 31 December 2019, it was discovered that due to errors during the acquisition of Marvin Leeds Marketing Services ("LMS"), Trade and other receivables were overstated by £223,000. An adjustment was made in the financial year resulting in a decrease in Trade and other receivables to £195,000 and an increase in Goodwill to £554,000 at acquisition. The comparative figures at 31 December 2018 have been adjusted retrospectively. This has no impact on the reserves or the shareholders' funds.

WARPAINT LONDON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Staff costs

	Year ended 31 December	
	2019	2018
	£'000	£'000
Wages and salaries	190	169
Share based payments	674	69
Social security costs	22	19
Pension costs	1	2
	887	259

The average monthly number of employees during the period was as follows:

	Year ended 31 December	
	2019	2018
	No.	No.
Directors	6	6
	6	6

	2019	2018
	£'000	£'000
Directors' remuneration, included in staff costs		
Salaries	190	169
Share based payments	674	69
	864	238

The directors are the only key management personnel.

WARPAINT LONDON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

3. Investments

	At 31 December 2019 £'000
Cost	
At January 2019	35,833
Additions	-
At December 2019	<u>35,833</u>
Net book value	
At 31 December 2019	<u>35,833</u>
At 31 December 2018	<u>35,833</u>

During the year ended 31 December 2018, the consideration for the acquisition of Retra Holdings Limited was finalised. The previously disclosed purchase price of £18.36 million was reduced by £450,000 resulting in a reduction in the investment figure by £450,000.

The company subsidiaries, as at the period end are shown in note 7 of the consolidated financial statements

4. Debtors

	2019 £'000	2018 £'000
Due from group undertakings	11,237	14,975
Other debtors	-	1
Prepayments and accrued income	61	12
	<u>11,298</u>	<u>14,988</u>

Amounts due from related undertakings are unsecured, non-interest bearing and payable on demand.

WARPAINT LONDON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

5. Creditors due within one year

	2019	2018
	£'000	£'000
Trade payables	33	-
Other taxation and social security	26	29
Accruals and deferred income	51	38
	110	67

6. Called up share capital

	No of shares	
	'000	£'000
Allotted and issued		
<u>Ordinary shares of £0.25 each</u>		
At 1 January 2018 and 2019	76,749	19,187
At 31 December 2018 and 2019	76,749	19,187

All ordinary shares carry equal rights.

7. Share premium

	2019	2018
	£'000	£'000
Share premium	19,359	19,359

The share premium reserve contains the premium arising on the issue of equity shares, net of issue expenses incurred by the company.

8. Other reserves

The movement in merger reserve represents the difference between the issue price and the nominal value of shares issued as consideration for the acquisition of subsidiary undertaking.

The share option represents share-based payment charges on the share options that were in issue.

WARPAINT LONDON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

9. Related party transactions

The Company has taken advantage of the disclosure of related party transactions with wholly owned fellow group companies. Related party transactions with key management personnel (including directors) are shown in note 23 of the Consolidated Financial Statements.

10. Share based payments

Movements in the number of options and their weighted average exercise prices are as follows:

	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)	Number of options
	2019	2019	2018	2018
Outstanding at the beginning of the year	253.52	4,070,617	237.50	255,892
Granted during the year	-	-	254.50	3,837,462
Expired during the year	237.50	(3,368)	237.50	(22,737)
Period adjustments	237.50	21,053		
Outstanding at the end of the year	253.45	4,088,302	253.53	4,070,617

The weighted average remaining contractual life of the options is 4.0 years (2018: 5.0 years).

The following options over ordinary shares have been granted by the Company:

	Exercise price	Exercise period	Number of options
	Pence	(years)	
29 June 2017	237.50	3	255,051
24 September 2018	254.50	5	3,837,462

At the date of grant, the options were valued using the Black-Scholes option pricing model. The fair value per options granted and the assumptions used in the calculations were as follows:

	24 Sept 18	29 June 17
Expected volatility	78%	64%
Expected life (years)	2-4	3
Risk-free interest rate	1.61%	0.38%
Expected dividend yield	1.53%	2%
Fair value per option (£)	0.422	0.963

On 21 September 2018, share options with an exercise price of 254.50p, equal to the closing mid-market value immediately prior to the date of grant, and subject to the achievement of demanding Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") performance conditions measured over a period of up to 5 years were granted to certain directors.

WARPAINT LONDON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

10. Share based payments (continued)

The share options are exercisable up to 10 years from the date of grant. Vesting is subject to the performance conditions set out below:

- 50% of the award is subject to an adjusted EPS growth performance condition. One third of this portion of the award will be tested and vest after three, four and five years. Vesting is based on adjusted EPS in the years ending Dec 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 12.5% compound annual EPS growth and full vesting at 22.5% compound annual EPS growth, measured from 31 December 2017.
- 50% of the award is subject to an absolute TSR performance condition tested following the announcement of results for the years ending 31 December 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 8% compound annual TSR and straight line vesting up to 100% vesting at 18% compound annual TSR, measured from 31 December 2017.

An additional grant of 460,494 share options with the same terms was made on the same date to three senior management individuals of the Company.

On 29 June 2017, the Company granted in aggregate over 277,788 ordinary shares of 25 pence each in the Company under the Enterprise Management Incentive Scheme to all staff members, including the Company's Chief Financial Officer, Neil Rodol, but excluding all other directors. The Options are exercisable for a period of seven years from 29 June 2020, subject to certain performance conditions being met, including that the compound annual growth rate in the Company's earnings per share must exceed 8 per cent over the three financial years commencing 1 January 2017, subject to the discretion of the Company's remuneration committee.

The charge in the statement of comprehensive income for the share-based payments during the year was £674,000 (2018: £116,000).

11. Post balance sheet events

Please refer to Note 30 to the consolidated financial statements